

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

**COMBINED NEW ISSUE AND REFUNDING
BOOK-ENTRY-ONLY
NOT BANK QUALIFIED**

**RATINGS: Standard & Poor's: "AAA"
Moody's: "Aaa"
See "RATINGS" herein**

In the opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Series 2003 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Series 2003 Bonds have not been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. See "TAX MATTERS."

OFFICIAL STATEMENT
\$19,305,000
CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION VARIOUS PURPOSE BONDS
SERIES 2003

Dated: Date of delivery

Due: June 15, as shown below

The Series 2003 Bonds are issuable in fully registered form and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2003 Bonds. Purchases of the Series 2003 Bonds will be made in book-entry-only form, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series 2003 Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2003 Bonds. So long as DTC or its nominee is the registered owner of the Series 2003 Bonds, payments of the principal or redemption price of and interest on the Series 2003 Bonds will be made directly to DTC. Interest is payable on each June 15 and December 15, beginning December 15, 2003. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. Wells Fargo Bank Nebraska, National Association, Lincoln, Nebraska (the "Registrar"), is bond registrar and paying agent for the Series 2003 Bonds. For terms relating to Series 2003 Bond principal and interest payments made to DTC or its nominee or in the event that the use of book-entry form is discontinued, see "THE SERIES 2003 BONDS - Book-Entry-Only System."

The Bonds maturing on or after June 15, 2014 are subject to optional redemption prior to maturity at any time on or after June 15, 2013 as set forth herein. See "THE BONDS - Optional Redemption of Bonds."

The Bonds are being issued to provide a portion of the funds necessary to (1) pay the costs of constructing certain extensions of and improvements to the City's storm sewer and drainage system, (2) provide for the payment and redemption of certain series of outstanding general obligation bonds of the City, and (3) pay certain costs of issuing the Bonds. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Bonds are payable from ad valorem taxes, unlimited as to rate and amount, levied by the City against all taxable property in the City. The full faith and credit of the City is pledged to the prompt payment of the principal of and interest on the Bonds. See the caption "NEBRASKA DEVELOPMENTS RELATED TO BUDGETS AND TAXATION" herein.

MATURITY SCHEDULE

<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Yield</u>	<u>Price</u>	<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Yield</u>	<u>Price</u>
2004	\$1,340,000	3.000%	0.903%	101.949%	2011	\$965,000	2.800%	2.880%	99.434%
2005	1,670,000	3.000	1.200	103.434	2012	965,000	3.000	3.020	99.843
2006	1,645,000	3.000	1.430	104.497	2013	965,000	3.100	3.150	99.574
2007	1,260,000	3.000	1.770	104.656	2014	970,000	3.250	3.320	99.360
2008	1,265,000	3.000	2.100	104.198	2015	970,000	3.450	3.510	99.417
2009	1,270,000	3.000	2.360	103.524	2016	805,000	3.625	3.700	99.232
2010	965,000	2.625	2.670	99.715	2017	540,000	3.750	3.820	99.247

\$1,745,000 4.000% Term Bonds Due June 15, 2020, Price 99.389% to yield 4.050%

\$1,965,000 4.125% Term Bonds Due June 15, 2023, Price 99.000% to yield 4.199%

The Bonds are offered only in book-entry form, when, as and if issued, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. It is expected that the Bonds will be available for delivery through The Depository Trust Company, New York, New York, on or about July 8, 2003.

U.S. BANCORP PIPER JAFFRAY
A.G. EDWARDS & SONS, INC. **EDWARD D. JONES &: CO., L.P.**
KIRKPATRICK PETTIS **ROBERT W. BAIRD & CO. INCORPORATED**

AMERITAS INVESTMENT CORP.
Has acted as Financial Advisor

Dated: June 24, 2003

**CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Coleen Seng, Mayor

City Council Members

Jon Camp (Chairperson)

Jonathan Cook
Glenn Friendt
Annette McRoy

Patte Newman
Ken Svoboda
Terry Werner

City Department Heads

Donald Herz	Finance Director
Marvin Krout	Planning Director
Lynn Johnson	Parks and Recreation Director
Terry Bundy	LES Administrator and CEO
Marc Wullschleger	Urban Development Director
Carol Connor	Library Director
Allan Abbott.....	Public Works and Utilities Director
Bruce Dart	Health Director
Georgia Glass	Personnel Director
Dana W. Roper.....	City Attorney
Thomas Casady	Police Chief
Mike Spadt	Fire Chief
Mike Merwick	Building and Safety Director

Peggy Watchorn, City Controller

Financial Advisor

Ameritas Investment Corp.

Bond Counsel

Gilmore & Bell, P.C.

Paying Agent And Registrar

Wells Fargo Bank Nebraska, Lincoln, Nebraska

Independent Auditors

KPMG LLP

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Bonds offered hereby other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of this Official Statement. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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THIS OFFICIAL STATEMENT IS NOT, AND MAY NOT BE CONSTRUED AS, A CONTRACT WITH THE PURCHASERS OF THE BONDS. STATEMENTS CONTAINED IN THE OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, FORECASTS, OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS A REPRESENTATION OF FACTS.

THE UNDERWRITERS INTEND TO OFFER THE BONDS INITIALLY AT THE OFFERING PRICES SET FORTH ON THE COVER PAGE OF THIS OFFICIAL STATEMENT, WHICH MAY SUBSEQUENTLY CHANGE WITHOUT ANY REQUIREMENT OF PRIOR NOTICE. IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT.

OFFICIAL STATEMENT

\$19,305,000
CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION VARIOUS PURPOSE BONDS
SERIES 2003

INTRODUCTION

This Official Statement is provided by the City of Lincoln, Nebraska (the “City”), a home rule city and political subdivision of the State of Nebraska (the “State”), to furnish information about the City, certain improvements to and extensions of the City’s storm sewer and drainage system, the refunding and redemption of certain series of outstanding general obligation bonds of the City, and the City’s \$19,305,000 General Obligation Various Purpose Bonds, Series 2003 (the “Bonds”). See “THE PROJECT” herein for a discussion of the storm sewer and drainage system improvements being constructed and the general obligation bonds being refunded and paid from the proceeds of the Bonds.

Descriptions of and references to the Bonds, the Ordinance (as defined herein), related transaction documents and other matters do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the complete texts thereof. Copies of such documents are available for inspection at the office of Ameritas Investment Corp., Lincoln, Nebraska, the financial advisor to the City (the “Financial Advisor”).

AUTHORITY

The City is issuing the Bonds under the authority of the provisions of Sections 10-142, 15-244, 18-506, 18-1801 and 18-1802, Reissue Revised Statutes of Nebraska, as amended, Sections 39 through 43 of Article IX of the Home Rule Charter of the City, and Ordinance No. 18178 duly adopted by the City Council of the City on May 19, 2003 and approved by the Mayor on May 19, 2003 (the “Ordinance”). A proposition authorizing the issuance of general obligation bonds of the City in an amount not to exceed \$10,000,000 for the purpose of paying the costs of the storm sewer and drainage system improvements was approved by a vote of 22,891 in favor and 20,804 opposed (approximately 52%) of those voting on the question at an election held within the City on May 6, 2003.

SECURITY

The full faith and credit of the City has been pledged to the payment of the principal of and interest on the Bonds. The City has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City sufficient to pay the principal of and interest on the Bonds, which taxes shall be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City. See “NEBRASKA DEVELOPMENTS REGARD BUDGETS AND TAXATION” herein for more information regarding real property taxation in the State.

Among the factors affecting an investment in the Bonds, potential investors should be aware that the United States Bankruptcy Code enables debtors (including municipalities such as the City) that are insolvent to obtain relief through petition and plan which may result in the modification or delay of payments to creditors, including bondholders. In the event of any insolvency upon the part of the City, the holders of the Bonds would be treated as general creditors of the City along with other unsecured claimants. The extent to which the exception from limitations upon overall tax rates provided for in existing legislation might entitle bondholders to be treated as a separate class or otherwise given priority over other unsecured claimants is a matter that would be subject to future determinations of State and federal courts interpreting and applying both State law and the United States Bankruptcy Code. Procedures under the Bankruptcy Code or other insolvency laws could result in delays in

payment and modifications of payment rights. The State has authorized its political subdivisions to seek relief under the United States Bankruptcy Code.

NEBRASKA DEVELOPMENTS RELATED TO BUDGETS AND TAXATION

The Nebraska Legislature has enacted legislation intended to reduce the level of property taxation and political subdivision expenditures in the State. Such legislation imposes budget limitations and requires reductions in the rate of taxation for general property taxes. Budget limitations relating to cities, villages, counties and other political subdivisions (Sections 13-518 to 13-522, Reissue Revised Statutes of Nebraska, as amended, and related sections, the “Budget Limitations”) limit the growth in amounts which may be budgeted with respect to certain restricted funds. Restricted funds include property taxes, excluding any amounts required to pay interest and principal on bonded indebtedness. The limitation imposed does not apply to tax revenues pledged to retire bonded indebtedness. The Budget Limitations currently provide for a base limitation of 2.5% upon increases. Such base limitation is subject to review by the Nebraska Legislature from year to year. The base limitation may be exceeded by an additional 1% upon an affirmative vote of at least 75% of the governing body. These limitations are to be enforced through the office of the Auditor of Public Accounts of the State of Nebraska and state aid may be withheld from governmental units which fail to comply. The Budget Limitations do not apply to the revenues of proprietary funds unless such revenues are devoted to general fund purposes.

Tax levy limitations (Section 77-3442, Reissue Revised Statutes, as amended, and related sections, the “Levy Limitations”) provide for overall limitations on the tax levies of political subdivisions, including counties. The Levy Limitations provide for an express exclusion from the limitations for property tax levies for bonded indebtedness. Under the Levy Limitations the rates for levying property taxes have been reduced for each type of governmental unit in the State of Nebraska. The rate for cities is set at 45¢ per \$100 of taxable valuation with an additional 5¢ available for payments under interlocal cooperation agreements. The City’s current levy is 31.452 cents (\$0.31452) per \$100 of taxable valuation on all the taxable property within the City.

Taxes to pay principal and interest on the City’s general obligation bonds are not subject either to the Budget Limitations or the Levy Limitations, and the City may levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City sufficient to pay the principal of and interest on the Bonds, which taxes may be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City.

The future methods for providing for financing cities, schools and other local units may be altered depending upon future actions to be taken by the Nebraska Legislature, further decisions of the Nebraska Supreme Court and federal courts and future initiative petitions proposed by voters.

THE PROJECT

Storm Sewer and Drainage System Improvements

The City is using a portion of the Bond proceeds to pay the costs of constructing certain extensions of and improvements to the City’s storm sewer and drainage system. Such Improvements include, but are not necessarily limited to, some or all of the following:

- Master Planned Basin projects
- Dead Man's Run channel rehabilitation
- Preliminary Engineering and Prioritization of Urban Drainage System Deficiencies
- Projects adjacent to Antelope Creek
- 56th and Holdrege area
- 32nd and Randolph area
- 12th and Charleston area
- Stream Rehabilitation projects on Park property
- Miscellaneous Repairs

Redemption and Refunding of General Obligation Bonds

The City is using a portion of the Bond proceeds to call for payment and redemption on or about August 18, 2003 (the "Redemption Date") certain general obligation bonds of the City (as described below, the "Refunded Bonds"). The Refunded Bonds consist of:

- \$975,000 aggregate principal amount of General Obligation Various Purpose Refunding Bonds, Series 1993, dated June 1, 1993 (the "Series 1993 Bonds").
- \$2,400,000 aggregate principal amount of General Obligation Storm Sewer and Drainage System Bonds, Series 1995, dated April 15, 1995 and maturing on and after June 1, 2004 (the "Series 1995 Storm Sewer Bonds").
- \$4,225,000 aggregate principal amount of General Obligation Various Purpose Bonds, Series 1995, dated August 1, 1995 (the "Series 1995 Various Purpose Bonds").
- \$1,957,779 aggregate principal amount of Sanitary Improvement District No. 7 of Lancaster County, Nebraska General Obligation Refunding Bonds, Series 1989, dated July 15, 1989 maturing on and after June 15, 2004 (the "Series 1989 Bonds"). The Series 1989 Bonds were originally issued by Sanitary Improvement District No. 7 of Lancaster County, Nebraska ("SID No. 7") and became a general obligation liability of the City upon the City's annexation of SID No. 7.

On the date the Bonds are issued and delivered, the City will deposit Bond proceeds with Wells Fargo Bank Nebraska, National Association, Lincoln, Nebraska, as escrow agent (the "Escrow Agent") under the Irrevocable Escrow Deposit Agreement, dated as of June 1, 2003 (the "Escrow Agreement"), between the City and the Escrow Agent in an amount sufficient to pay, redeem, refund and retire all of the Refunded Bonds on the Redemption Date. Upon the issuance of the Bonds and the deposit of proceeds of funds with the Escrow Agent as provided in the Escrow Agreement, all of the Refunded Bonds will be deemed to be paid and will no longer be outstanding under the respective ordinance or resolution pursuant to which such Refunded Bonds were issued.

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ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds

Par Amount of Bonds	\$19,305,000.00
Plus: Net Original Issue Premium	247,703.40
Debt Service Funds for Refunded Bonds	<u>298,085.11</u>
TOTAL SOURCES	<u>\$19,850,788.51</u>

Uses of Funds

Project Costs	\$ 9,859,000.00
Deposit to Escrow Fund for Redemption of Refunded Bonds	9,734,167.77
Underwriter's Discount and Costs of Issuance	<u>257,620.74</u>
TOTAL USES	<u>\$19,850,788.51</u>

THE BONDS

General

The Bonds will be issued in fully registered, book-entry-only form. See "Book-Entry-Only System," under this caption.

The Bonds will be issued in the denominations of \$5,000 or any integral multiple thereof, not exceeding the amount maturing in any one year, and will mature on the dates and in the amounts and bear interest at the rates, as set forth on the cover of this Official Statement.

Wells Fargo Bank Nebraska, National Association, Lincoln, Nebraska, is bond registrar and paying agent (the "Registrar") for the Bonds. The principal and interest due at maturity or upon prior redemption are payable upon presentation and surrender of the Bonds at the office of the Registrar. Interest due prior to maturity or earlier redemption is payable on each June 15 and December 15, beginning December 15, 2003, by check or draft of the Registrar mailed directly to the persons who are the registered owners as of the close of business on the first day of the month in which such interest payment becomes due (the "Record Date").

Book-Entry-Only System - *Generally*

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. Initially, ownership of one fully registered Bond for each maturity of the Bonds, as set forth on the front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Bonds will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by DTC. See APPENDIX D - BOOK-ENTRY-ONLY SYSTEM to this Official Statement.

Book-Entry System Risk Factors

Beneficial Owners of the Bonds may experience some delay in their receipt of distributions of principal of, and interest on, the Bonds since such distributions will be forwarded by the Registrar to DTC and DTC will credit

such distributions to the accounts of its Participants, which will thereafter credit them to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Since transactions in the Bonds can be effected only through DTC, its Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge any Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Bonds, may be limited due to lack of physical certificate. Beneficial Owners will not be recognized by the Registrar as registered owners for purposes of the Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and its Participants.

Interchangeability and Transfer

The Bonds, upon surrender thereof to the Registrar, as bond registrar, with a written instrument of transfer satisfactory to the Registrar, duly executed by the registered owner or his or her duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds in registered form of the same series, rate of interest, maturity and of any other authorized denomination.

In all cases in which the privilege of exchanging or transferring the Bonds is exercised, the City shall execute and the Registrar shall deliver the Bonds in accordance with the Ordinance. For every such exchange or transfer of Bonds, the Registrar shall require the payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto and may charge a sum not exceeding the actual cost for each new Bond.

No exchange or transfer of any Bond shall be required to be made during the 15 days next preceding the date of the first mailing of notice of redemption in the case of a proposed redemption of the Bonds.

Optional Redemption of Bonds

The Bonds maturing on or prior to June 15, 2013 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after June 15, 2014 are subject to redemption prior to maturity at the option of the City on or after June 15, 2013 as a whole or in part at any time in such principal amounts and from such maturity or maturities as the City shall specify and by lot in integral multiples of \$5,000 within a maturity at a redemption price equal to 100% of the principal amount then being redeemed, together with accrued interest on such principal amount to the redemption date.

Mandatory Sinking Fund Redemption

Bonds maturing on June 15, 2020 and June 15, 2023 shall be subject to redemption prior to maturity by lot by operation of a mandatory sinking fund on June 15 in each of the following years and in the following amounts, upon payment of the principal amount thereof plus accrued interest to such date of redemption, but without premium. Selection of any Bonds or portions thereof to be redeemed shall be in the sole discretion of the Registrar

<u>Year</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2018	\$560,000	2021	\$630,000
2019	580,000	2022	655,000
2020*	605,000	2023*	680,000

*Final Maturity

Notice of Redemption; Effect of Redemption

Notice of the call for redemption, identifying the Bonds or portions thereof to be redeemed, shall be given by the Registrar to the registered owners of the Bonds to be redeemed at their registered addresses as shown on the registration books maintained by the Registrar, by first-class mail, postage prepaid, not less than thirty (30) days prior to the date fixed for redemption. Failure to give notice to any particular registered owner or any defect in the notice given to such owner shall not affect the validity of the proceedings calling the Bonds or the redemption of any Bonds for which proper notice has been given. The City shall have the right to direct further notice of redemption for any Bond for which defective notice has been given. Notice of redemption may be waived in writing by the registered owner of any Bond.

If notice of redemption has been properly given and moneys for payment are available on the redemption date, the Bonds so called for redemption shall, on the redemption date, become due and payable and shall cease to bear interest and the owners of the Bonds so called for redemption shall have no rights under the Ordinance except to receive payment of the redemption price plus accrued interest to the date fixed for redemption from funds deposited with the Registrar by the City.

RATINGS

Standard & Poor's Ratings Service ("Standard & Poor's"), a division of The McGraw Hill Companies, has given the Bonds a rating of "AAA" and Moody's Investors Service, Inc. ("Moody's") has given the Bonds a rating of "Aaa." Any desired explanation of the significance of such ratings should be obtained from Standard & Poor's or Moody's. The City furnished the rating agencies with certain information and materials relating to the Bonds and the City which have not been included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on investigations, studies and assumptions made by such rating agency. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. The City has undertaken no responsibility either to bring to the attention of the owners of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Bonds.

TAX MATTERS

Federal and Nebraska Tax Exemption

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law, the interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Bonds. The City has **not** designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

Except as may be expressed herein under “TAX MATTERS – Original Issue Discount Bonds” or “– Original Issue Premium”, Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

Original Issue Discount Bonds

In the opinion of Bond Counsel, subject to the conditions set forth above, the original issue discount in the selling price of each Bond maturing June 15 in the years 2010 to 2023, inclusive, (the “OID Bonds”), to the extent properly allocable to each owner of such Bond, is excluded from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Bond over the initial offering price to the public, excluding underwriters and intermediaries, at which price a substantial amount of the OID Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of an OID Bond during any accrual period generally equals (i) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such OID Bond during such accrual period. The amount of original issue discount accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such OID Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Bond will be treated as gain from the sale or exchange of such Bond.

Original Issue Premium

Bonds maturing June 15 in the years 2004 to 2009, inclusive, have an initial offering price which exceeds the stated redemption price of the Bond at maturity. The excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the amount of tax-exempt interest deemed received by the purchaser and the purchaser’s basis in such Bond each are reduced by a corresponding amount. The adjustment to a purchaser’s tax basis will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Bonds at a premium, *whether at the time of initial issuance or afterward*, should consult with their own tax advisors as to the determination and treatment of premium for federal income tax purposes and state and local tax consequences of owning such Bonds.

Other Tax Consequences

Prospective purchasers of the Bonds should be aware that there may be tax consequences of purchasing the Bonds other than those discussed above, including the following:

- (1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of such institution’s interest expense allocable to interest on the Bonds;

(2) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds;

(3) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code;

(4) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and

(5) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Bonds should consult their own tax advisors as to the applicability of these tax consequences.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than May 1 of each year (the "Annual Report"), commencing with the report for the 2002-2003 fiscal year of the City and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board. The proposed form of the Continuing Disclosure Certificate of the City is attached to this Official Statement as APPENDIX C. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

A failure by the City to comply with the undertaking will not constitute a default under the Ordinance, although bondholders will have any available remedy at law or in equity. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. The City is in compliance with each prior undertaking made by it pursuant to the Rule.

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the City, nor the title of the Council members or other officers of the City to their respective offices, is being contested or questioned.

There is no litigation pending which in any manner questions the right of the City to pass the Ordinance of the City pursuant to which the Bonds are being issued.

LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and validity of the Bonds are subject to the approval of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Certain legal matters will be passed on by

Gilmore & Bell, P.C., Lincoln, Nebraska, as Disclosure Counsel. Such attorneys have not participated in any independent verification of the information concerning the financial condition or capabilities of the City contained in this Official Statement.

INDEPENDENT AUDITORS

The financial statements and schedules of the City for the year ended August 31, 2002, included in APPENDIX B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein which refers to the adoption of new accounting standards.

FINANCIAL ADVISOR

Ameritas Investment Corp. (“Ameritas”), Lincoln, Nebraska, is serving as financial advisor to the City with respect to the sale of the Bonds. Ameritas has assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2003 Bonds and provided other advice. Ameritas will not participate as an underwriter in any offer to purchase the Series 2003 Bonds.

MISCELLANEOUS

All estimates and assumptions herein have been made on the basis of the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are current or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The information set forth in this Official Statement should not be construed as representing all of the conditions affecting the City or the Bonds.

This Official Statement is issued by the City.

CITY OF LINCOLN, NEBRASKA

By: /s/ Don Herz
Finance Director

APPENDIX A

THE CITY OF LINCOLN

THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 79.55 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities.

Population

The 1960 population of the City was 128,521; the 1970 population was 149,510; the 1980 population was 171,932; the 1990 population was 191,972; and the 2000 population was 225,588, a 17.5 percent increase over the 1990 count. The 2000 count represents approximately 90 percent of the population of Lancaster County, the county in which the City is located. The estimated 2002 population is 231,800.

City Government

The City, operating under a home rule charter, has a mayor-council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of seven members. Three are elected at large and four by district on a nonpartisan basis for a term of four years. The administration of City government is performed under the direction of the Mayor by administrative departments.

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 5,455 acres maintained for public use, eleven public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

The Lincoln metropolitan area is served by Interstate 80, U.S. Routes 6, 34, and 77 and State Highway 2.

Scheduled air service is provided by United Airlines, American Airlines, U.S. Air Express, and Northwest/Mesaba Airlines. The City's modern airport has three runways (one of which is 12,900 feet in length) which can accommodate any type of modern aircraft.

Railroad transportation facilities include those of Burlington Northern & Santa Fe, Union Pacific, and AMTRAK, and bus transportation is furnished by one carrier.

Government Center

The State Capitol, an architectural achievement located in Lincoln, is considered one of the most impressive in all the 50 states. Other state governmental facilities in the City include the Nebraska Educational Telecommunications facility, the Nebraska Game and Parks Commission headquarters, the Lincoln Regional Center (state hospital), the Nebraska State Fair Park, and the Nebraska Penal Complex.

Federal agencies in Lincoln include regional offices of the U.S. Department of Agriculture (Mid-West Regional Technical Service Center), the Immigration & Naturalization Service and the Veterans Administration, as well as the state offices of other federal agencies. There is also a U.S. Veterans Medical Facility.

Lancaster County offices are also located in Lincoln, the county seat.

Education

The University of Nebraska, with approximately 22,450 students, Nebraska Wesleyan University, with approximately 1,650 students, Union College with approximately 860 students, and Southeast Community College, with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 31,867 is served by 5 senior high schools, 10 middle schools, and 37 elementary schools. There are also 31 private and parochial schools in the City with an enrollment of approximately 6,591 students.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2002	1,013	\$ 245,476,386	3,405	\$ 262,293,941	\$ 3,094,988,486	\$ 7,255,640,292	\$ 10,350,628,778
2001	1,017	215,856,679	3,212	231,390,626	2,855,200,333	7,048,688,380	9,903,888,713
2000	1,069	181,983,107	3,385	225,622,611	2,540,905,431	6,273,610,610	8,814,516,041
1999	1,148	186,569,754	3,235	206,065,342	2,356,367,014	6,067,493,586	8,423,860,600
1998	1,093	119,532,867	3,109	185,894,741	2,132,780,337	5,726,511,673	7,859,292,010
1997	1,107	90,599,429	3,284	191,975,903	1,986,422,642	4,863,604,491	6,850,027,133
1996	1,212	148,033,633	2,976	167,561,114	1,840,136,792	4,676,645,258	6,516,782,050
1995	1,140	110,994,400	2,739	146,598,151	1,734,716,053	4,508,422,380	6,243,138,433
1994	1,117	136,104,897	3,114	156,183,375	1,703,370,467	4,336,950,337	6,040,320,804
1993	1,027	105,463,763	2,528	129,375,506	1,359,824,873	3,209,649,927	4,569,474,800

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 244 firefighters and two police stations with 303 police officers.

City Employee Information

For the 2002-2003 fiscal year, contracts have been signed with all of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the National Association of Government Employees (NAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The CEA, LPU and ATU contracts expire at the end of August, 2003; the IAF contract expires at the end of August, 2004; and the NAGE contract expires at the end of August, 2005.

Since the inception of labor contracts in 1970, the City of Lincoln has been able to handle its labor relations in such a manner as to avoid interruptions, although it has been necessary to use the facilities of the Nebraska Commission of Industrial Relations on issues involving the International Association of Firefighters, International Brotherhood of Police Officers, and the union representing labor, trades, and clerical personnel.

Industrial and Business Activity

The industrial development statutes permit Nebraska counties and municipalities to issue revenue bonds to acquire sites and construct buildings for lease to industry seeking expansion and relocation. In addition to land and building costs, costs such as grading, utility lines, trackage, etc., may be included in the total cost financed by the bond issue.

Currently, there are more than 200 firms representing over 120 types of manufacturing, evidence of Lincoln's diversified industrial interests. These include printing and publishing, metal fabrication firms, grain storage and feed manufacturers, planing

mills, fire protection systems, pharmaceuticals, electrical and electronic goods and many others. Lincoln is the home office of 20 insurance companies, whose combined assets are over \$2 billion. The financial interests of Lincoln are served by three national banks and eight state banks.

Lincoln is proud to have some of the nation's leading industrial companies as local employers, including Goodyear Tire and Rubber Company, Burlington Northern Railroad, Archer-Daniels-Midlands Company, Kawasaki Motors Corporation USA, Square D, and Outboard Marine Corporation.

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	JUNE 30, 2002		DECEMBER 31, 2002	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	9,523	5.9	9,174	5.7
Nondurable Goods	7,236	4.5	7,234	4.5
Total Industry Manufacturing	16,759	10.5	16,408	10.1
Nonmanufacturing:				
Mining & Construction	8,549	5.3	8,017	5.0
Transportation, Communications & Utilities	6,625	4.1	6,599	4.1
Wholesale Trade	4,673	2.9	4,642	2.9
Retail Trade	16,171	10.1	17,487	10.8
Information	3,336	2.3	10,797	7.4
Finance, Insurance & Real Estate	10,756	6.7	3,376	2.1
Services (except domestic)	57,210	35.7	57,394	35.5
Government	36,193	22.6	37,075	22.9
Total Nonmanufacturing	143,513	89.8	145,387	90.6
TOTAL	160,272	100.0	161,795	100.0

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1993-2002) (For the Calendar Year Indicated)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Civilian Labor Force	129,463	132,465	136,014	137,967	142,807	142,918	142,384	150,239	150,846	153,021
Unemployment	3,006	3,487	3,060	3,327	2,494	3,208	3,397	3,542	4,209	5,007
Percent of Labor Force	2.3	2.6	2.2	2.4	1.7	2.2	2.4	2.4	2.8	3.3
Employment	126,457	128,978	132,954	134,640	140,313	139,710	138,987	146,697	146,636	148,013

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	2.9	2.5	2.6	2.7	2.3	2.7	2.9	2.7	3.1	3.6

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

<u>Year</u>	<u>Population 1</u>	<u>Per Capita Income 2</u>	<u>School Enrollment 3</u>
2002	231,800	\$	31,867
2001	225,588		31,581
2000	218,497	28,752	31,354
1999	217,537	28,493	31,052
1998	215,000	27,487	31,000
1997	209,192	24,602	30,924
1996	206,100	23,591	30,779
1995	203,076	22,446	30,693
1994	199,350	21,169	30,041
1993	197,482	20,130	29,943

Sources:

1 Lincoln/Lancaster Planning Department.

2 University of Nebraska Bureau of Business Research - U.S. Dept. of Commerce, Bureau of Economic Analysis. Per Capita Income for 2001 and 2002 is unavailable.

3 Lincoln Public Schools.

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2002	69,704	89,085	116,974
2001	68,187	87,749	114,388
2000	66,956	86,501	112,817
1999	65,823	85,156	110,524
1998	64,423	80,770	107,701
1997	63,905	79,490	105,970
1996	62,828	78,488	103,603
1995	61,500	77,470	101,277
1994	61,047	76,400	99,693
1993	59,700	75,700	96,361

Source: Indicated Utility Companies

SELECTED FINANCIAL STATISTICS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹ LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And Welfare	Mass ² Transit	Debt Service	Totals
2002	\$ 27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	15,513,515	12,691,837	7,411,878	154,592,987
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	14,232,879	-	7,742,690	132,460,378
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	12,589,907	-	7,924,295	122,288,862
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,226,029	-	6,937,983	114,487,894
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	7,317,239	123,721,722
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922
1996	21,642,981	35,208,168	8,204,830	12,475,318	8,638,263	8,874,148	-	7,468,367	102,512,075
1995	19,324,778	32,268,654	7,707,436	11,546,106	9,027,752	7,838,386	-	7,161,326	94,874,438
1994	17,757,517	29,709,169	7,039,926	10,611,776	8,104,312	7,019,362	-	9,116,154	89,358,216
1993	15,561,262	28,560,001	7,724,395	10,355,012	8,091,916	6,067,846	-	9,647,393	86,007,825

¹ Includes General, Special Revenue, and Debt Service Funds.

² StarTran added as a Special Revenue Fund in 2002.

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2002 ²	\$ 98,375,135	58,762,476	12,449,879	5,605,557	2,018,695	10,548,354	187,760,096
2001	89,503,325	48,369,359	9,638,476	3,685,621	4,072,585	9,668,449	164,937,815
2000	86,831,572	35,469,904	9,838,028	3,360,901	3,955,026	9,228,060	148,683,491
1999	82,998,188	34,847,767	8,690,565	306,506	3,328,425	8,894,527	139,065,978
1998	79,200,331	40,261,744	8,040,655	2,603,350	3,525,748	10,363,736	143,995,564
1997	78,164,628	26,909,591	7,903,461	3,841,495	3,203,760	8,414,170	128,437,105
1996	75,624,598	27,398,828	7,587,645	3,012,387	2,891,696	9,518,249	126,033,403
1995	71,429,314	24,447,377	6,325,774	3,211,819	2,636,591	9,503,980	117,554,855
1994	72,266,306	24,954,144	4,289,234	2,862,622	1,352,122	8,583,766	114,308,194
1993	65,691,255	24,165,654	3,441,494	2,116,029	1,279,216	5,923,261	102,616,909

¹ Includes General, Special Revenue and Debt Service Funds.

² StarTran added as a Special Revenue Fund in 2002.

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2002	\$ 1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085
1996	2,484,416
1995	2,337,275
1994	2,770,059
1993	2,903,065

¹ Special assessment collections are not tracked by levy year, therefore the portion of collections during any year which apply to any particular levy cannot be determined.

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling established by using the September 1, 1966 City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the city tax limit for the previous year, plus 7% thereof. In addition, the City also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2002 tax levy for the 2002-2003 fiscal year is \$48,669,563 below the legal limit, a tax rate per \$100 valuation of .31452. The assessed value upon which the 2002 levy is based is \$11,130,588,167. Only 90% of the property tax levy may be appropriated, by charter.

For the 2002-2003 fiscal year the City is subject to a state imposed lid on the appropriation of "restricted funds", which are revenues received from property tax, sales tax, state aid, in-lieu of tax, municipal infrastructure redevelopment fund (MIRF), and highway allocation fees. Bonded indebtedness, capital improvements, and costs associated with interlocal agreements are exempt from the lid. For 2002-2003 the City can also use authority equal to the amount of real growth in the tax base of 4.30%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2002-2003 budget. The 2002-2003 budget is approximately \$16.4 million below the state imposed lid limit.

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**PROPERTY TAX LEVIED AND COLLECTED
LAST TEN YEARS**

The fiscal year of the City begins September 1 and ends August 31. Taxes are levied in October. First installments of real estate taxes are delinquent the following April 1, second installments delinquent August 1; personal property taxes are delinquent April 1 and August 1. Delinquent taxes bear 14 percent interest. The figures below include interest and penalties. The figures below do not include motor vehicle in lieu of ad valorem taxes.

Tax Year	Taxes Levied	Collected As Of August 31 After Levy			Accumulated Collections As Of August 31, 2002	
		Amount	Percent		Amount	Percent
2001	\$ 33,731,282	\$ 32,501,760	96.35 %	\$	32,501,760	96.35 %
2000	31,159,364	29,936,079	96.07		31,119,625	99.87
1999	29,603,794	28,665,780	96.83		29,751,358	100.50
1998	27,597,664	26,411,546	95.70		27,401,301	99.29
1997	26,812,692	25,758,577	96.07		27,002,912	100.71
1996	27,022,949	25,894,971	95.83		27,012,941	99.96
1995	26,717,464	25,626,901	95.92		26,807,251	100.34
1994	26,289,058	25,209,483	95.89		26,295,505	100.02
1993	25,962,618	25,108,543	96.71		26,253,275	101.12
1992	24,951,389	23,789,500	95.34		24,936,187	99.94

TEN LARGEST TAXPAYERS

Listed below are the ten largest taxpayers in the City of Lincoln as reported by the County Assessor. These taxpayers each pay less than five percent of the total taxes levied.

<u>Taxpayers</u>	<u>Type Of Business</u>	<u>2002 Assessed Valuations</u>	<u>Percentage Of Total Assessed Valuation</u>
Alltel Communications	Telecommunications	\$ 84,443,473	.76%
Kawasaki	Manufacturing	61,047,430	.55
Pfizer	Animal Health	51,035,883	.46
Burlington Northern	Railroad	48,504,622	.44
Molex Inc.	Manufacturing	44,982,045	.40
WEA Gateway LLC	Retail Management	43,142,298	.39
B & J Partnership	Building Management	39,222,660	.35
Chateau Van Dorn LLC	Real Estate Development	37,319,079	.34
RED Capital Management	Retail Management	36,133,814	.32
Peoples Natural Gas	Utility	<u>30,842,051</u>	<u>.28</u>
		<u>\$ 476,673,355</u>	<u>4.29%</u>

CITY SALES TAX INFORMATION

The City had a one percent (1%) sales and use tax through June 30, 1985. Effective July 1, 1985 the sales and use tax was raised to one and one half percent (1.5%). These taxes are administered and collected for the City by the State of Nebraska. The State receives three percent (3%) for their service. The City has had a sales tax since 1969.

SALES AND USE TAX COLLECTIONS LAST TEN YEARS

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2002	\$ 45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194
1996	33,543,308
1995	31,420,946
1994	29,739,476
1993	25,920,431

GENERAL FUND TAX COLLECTIONS LAST TEN YEARS

<u>Fiscal</u> <u>Year</u>	<u>Property and</u> <u>Motor Vehicle</u> <u>Taxes</u>	<u>Sales and</u> <u>Use Taxes</u>	<u>Insurance</u> <u>Taxes</u>	<u>Sundry</u> <u>Taxes</u>	<u>Taxes</u> <u>In Lieu</u>	<u>Occupation</u> <u>Taxes</u>	<u>Total</u>
2002	\$ 23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646
1996	19,407,255	33,543,308	984,537	15,438	978,909	4,437,038	59,366,485
1995	19,565,473	31,420,946	958,656	20,132	943,930	5,311,487	58,220,624
1994	19,576,322	29,739,476	1,039,534	22,649	914,133	5,589,410	56,881,524
1993	19,409,013	25,920,431	1,035,911	31,372	875,455	5,527,320	52,799,502

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

<u>Tax Year</u>		<u>Real Estate</u>	<u>All Other</u>	<u>Motor Vehicle</u>	<u>Total</u>
2002	\$	10,350,628,778	779,959,389		11,130,588,167
2001		9,903,888,713	820,797,124		10,724,685,837
2000		8,814,516,041	806,431,814		9,620,947,855
1999		8,423,860,600	716,780,457		9,140,641,057
1998		7,859,292,010	660,609,204		8,519,901,214
1997		6,850,027,133	637,669,384		7,487,696,517
1996		6,516,782,050	525,762,951	706,470,078	7,749,015,079
1995		6,243,138,433	442,913,618	639,647,617	7,325,699,668
1994		6,040,320,804	431,628,371	598,259,561	7,070,208,736
1993		4,569,474,800	424,296,765	542,119,130	5,535,890,695

¹Assessment is at 100% of actual. Effective in the 1997 tax year, Motor Vehicles are excluded from the taxable assessed valuation.

**TOTAL PROPERTY TAX LEVIES
ALL OVERLAPPING GOVERNMENTS
LAST TEN YEARS ***

	<u>Tax Year</u>									
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
City Of Lincoln	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837	0.3996	0.4062	0.5199
School District No. 1	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260	1.5946	1.6084	1.9098
Lancaster County	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106	0.3169	0.3051	0.3584
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081	0.0082	0.0082	0.0078
Community Technical College	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840	0.0864	0.0843	0.0917
Lower Platte South Natural Res. Dist.	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346	0.0346	0.0293	0.0349
Railroad Transportation Safety Dist.	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091	0.0096	0.0096	0.0130
Agricultural Society Of Lancaster County	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364	0.0014	0.0014	0.0017
Lancaster County Fairgrounds	0.0050	0.0052								
Public Building Commission	<u>0.0170</u>	<u>0.0170</u>	<u>0.0170</u>	<u>0.0170</u>	<u>0.0170</u>	<u>0.0170</u>	<u>0.0169</u>	<u>0.0170</u>	<u>0.0127</u>	<u>0.0170</u>
	<u>2.0274</u>	<u>2.0078</u>	<u>2.0881</u>	<u>2.0954</u>	<u>2.0748</u>	<u>2.4885</u>	<u>2.5094</u>	<u>2.4683</u>	<u>2.4652</u>	<u>2.9542</u>

*The assessment rate is 100% of market and the levy is expressed as the tax per \$100 of estimated market value.

DEBT MANAGEMENT
OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2002
Long-term debt is comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Average Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
5,193	09/15/89	Sanitary Improvement District #7	5.00000	Ser. '91 to '10	1990	Annually	\$ 2,032
4,570	06/01/93	Various Purpose Refunding	4.47364	Ser. '94 to '06	1998	Semiannually	1,305
10,740	07/01/93	Downtown Redev. Refunding	4.26203	Ser. '93 to '02	1998	"	1,265
4,000	04/15/95	Storm Sewer	5.45795	Ser. '95 to '15	2002	"	2,600
6,500	08/01/95	Various Purpose	5.18442	Ser. '96 to '15	2002	"	4,550
8,250	08/15/97	Storm Sewer and Drainage	4.92735	Ser. '99 to '17	2005	"	7,380
14,435	03/01/99	Various Purpose Series A	4.46209	Ser. '00 to '14	2009	"	12,195
7,365	03/01/99	Various Purpose Series A	4.46209	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.81227	Ser. '99 to '11	2007	"	5,965
7,500	05/29/02	Storm Sewer and Drainage	4.71847	Ser. '04 to '20	2010	"	7,500
Total General Bonds							<u>\$ 52,157</u>
Municipal Infrastructure Redevelopment Bonds:							
3200	06/13/00	Municipal Infrastructure Redev.	5.04700	Ser. '01 to '09	2005	Semiannually	<u>\$ 2,685</u>
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	5.87280	Ser. '93 to '06	1997	Semiannually	\$ 445
105	11/15/92	Tax Allocation Bonds	6.35000	Term '93 to '06	1997	"	55
90	11/15/92	Tax Allocation Bonds	6.30000	Term '93 to '05	1997	"	45
303	10/18/94	Tax Allocation Bonds	8.00000	Term '95 to '05	Anytime	"	129
232	04/21/00	Tax Allocation Bonds	5.49750	Ser. '01 to '10	2000	"	196
1,200	05/01/01	Tax Allocation & Refunding Bonds	3.63774	Ser. '01 to '04	2003	"	975
Total Tax Allocation Bonds							<u>\$ 1,845</u>
Total General, MIRF, And Tax Allocation Bonds							<u>\$ 56,687</u>
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	6.47384	Ser. '90 to '04	1996	Semiannually	<u>\$ 310</u>
TOTAL GENERAL OBLIGATION BONDS							<u><u>\$ 56,997</u></u>
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	4.49907	Ser. '02 to '16	2012	Semiannually	<u>\$ 11,080</u>
Revenue Bonds And Loans:							
60,000	08/15/93	Water Revenue	5.13966	Ser. '94 to '12	2003	Semiannually	<u>\$ 37,810</u>
9,018	02/05/91	Wastewater Revenue Project Loan	5.00000	1992 to 2007	1992	Semiannually	<u>\$ 5,593</u>
6,815	09/08/99	Parking Revenue Series A	5.18256	Ser. '00 to '14	2001	Semiannually	\$ 5,920
6,695	09/08/99	Parking Revenue Series A	5.18256	Term 2014	2001	"	6,695
2,125	09/08/99	Parking Revenue Series B	6.25000	Ser. '00 to '04	2001	"	940
6,000	12/05/02	Parking Revenue	4.78376	Ser. '02 to '21	2011	"	5,715
Total Parking Bonds							<u>\$ 19,270</u>
3,165	10/23/01	Golf Course Revenue Refunding	3.66003	Ser. '02 to '11	2008	Semiannually	<u>\$ 2,860</u>
184,650	07/01/93	Electric Refunding '93 Series A	4.68942	Ser. '94 to '11	2004	"	128,055
62,005	07/01/93	Electric Refunding '93 Series A	5.25000	Term 2015	2012	"	62,005
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.65000	Ser. '98 to '18	2008	"	39,825
141,150	08/15/01	Electric Revenue Bonds '01	5.07478	Ser. '06 to '20	2011	"	141,150
Total Electric Bonds							<u>\$ 371,035</u>
TOTAL REVENUE BONDS AND LOANS							<u><u>\$ 436,568</u></u>

The annual requirements to pay principal and interest on all outstanding debt are as follows (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities							
	General Obligation Bonds		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 5,060	2,523	105	18	270	446	148	86
2004	3,850	2,333	105	10	555	436	158	80
2005	3,936	2,168	100	3	565	423	142	73
2006	3,770	2,004	-	-	580	409	138	67
2007	3,519	1,840	-	-	595	391	102	61
2008 - 2012	16,222	6,866	-	-	3,305	1,618	594	220
2013 - 2017	13,395	3,486	-	-	5,210	773	347	84
2018 - 2022	6,345	718	-	-	-	-	189	12
2023 - 2027	590	15	-	-	-	-	-	-
	<u>\$ 56,687</u>	<u>21,953</u>	<u>310</u>	<u>31</u>	<u>11,080</u>	<u>4,496</u>	<u>1,818</u>	<u>683</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds And Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2003	\$ 15,442	22,087	290	64
2004	18,123	21,367	300	53
2005	19,038	20,507	310	40
2006	20,922	19,595	320	28
2007	20,828	18,584	207	14
2008 - 2012	115,200	76,604	212	5
2013 - 2017	137,835	44,915	-	-
2018 - 2022	89,180	9,224	-	-
	<u>\$ 436,568</u>	<u>232,883</u>	<u>1,639</u>	<u>204</u>

The City issues general obligation, special assessment, and revenue bonds to finance the acquisition and construction of major capital assets. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are repaid from amounts levied against affected property owners, but in the unlikely event collections are not sufficient to make debt payments, the responsibility rests with the City to meet that obligation. For revenue bonds the government pledges income derived from the acquired or constructed assets to pay the debt service.

Net assets of \$6,526,669, \$2,613,313, \$3,657,506, and \$4,699,699 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	\$ 42,000	\$ 210,000
Buildings	2,185,750	-
Machinery and Equipment	206,597	1,748,261
Less: Accumulated Depreciation, (where applicable)	<u>(440,237)</u>	<u>(228,999)</u>
Total	<u>\$ 1,994,110</u>	<u>\$ 1,729,262</u>

Under the City's Home Rule Charter, there is no legal debt margin. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, minimum amounts to be maintained in various bond reserve funds, and minimum revenue bond coverages. In the opinion of management, the City is in compliance with all such significant limitations and restrictions.

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2001, LES had \$75 million of commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2001, was 3 percent. The annual requirement to pay interest on this outstanding debt is approximately \$2,250,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2002, is summarized below (unaudited):

<u>Units</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable To The City</u>	<u>Direct And Overlapping Debt To The City</u>
Direct:			
City	\$ <u>41,150,000</u>	100.0 %	\$ <u>41,150,000</u>
Overlapping:			
School District #1	123,590,000	97.2	120,129,000
Airport Authority	3,577,000	100.0	3,577,000
Lancaster County	10,616,000	84.6	8,981,000
Public Building Commission	37,620,000	84.6	31,827,000
Southeast Community College	<u>None</u>	35.9	<u>None</u>
	<u>175,403,000</u>		<u>164,514,000</u>
Total	\$ <u><u>216,553,000</u></u>		\$ <u><u>205,664,000</u></u>

The City has no direct liability for the School District, Airport Authority, Lancaster County, or Southeast Community College debt summarized above. This results in a per capita direct City debt of \$177.52; a per capita direct and overlapping debt of \$954.27; a ratio of direct City debt to 2001 actual valuation of .37 percent; and a ratio of direct and overlapping debt to 2002 actual valuation of 1.99 percent.

Debt Payment Record

The City of Lincoln has never defaulted on its obligation to pay principal or interest on its indebtedness.

Contingencies

The City is a defendant in a number of lawsuits in its normal course of operations and management is of the opinion that ultimate settlement of such lawsuits will not have a materially adverse effect on the financial statements.

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**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS ²**

Fiscal Year	Principal	Interest ³	Total Debt Service	Total General Governmental Expenditures ^{1, 4}	Ratio Of Debt Service To Total General Expenditures
2002	\$ 4,921,172	\$ 2,421,303	\$ 7,342,475	\$ 154,592,987	4.75 %
2001	4,966,405	2,753,247	7,719,652	159,878,390	4.83
2000	5,125,296	2,772,021	7,897,317	141,358,841	5.59
1999	4,209,267	2,301,745	6,511,012	130,523,312	4.99
1998	4,927,317	2,329,696	7,257,013	138,023,575	5.26
1997	5,469,089	2,274,947	7,744,036	115,145,942	6.73
1996	4,959,621	2,445,185	7,404,806	115,693,553	6.40
1995	4,827,845	2,086,601	6,914,446	102,504,650	6.75
1994	6,603,251	2,349,574	8,952,825	96,549,425	9.27
1993	6,380,195	3,093,979	9,474,174	95,555,093	9.91

¹ Includes: General, Special Revenue, and Debt Service Funds

² In-substance defeasance excluded from this table.

³ Does not include fiscal and miscellaneous charges.

⁴ StarTran added as Special Revenue Fund in 2002.

**SCHEDULE OF GENERAL OBLIGATION DEBT IN RELATION TO POPULATION, ASSESSED VALUATION,
AND REAL PROPERTY VALUATION
LAST TEN FISCAL YEARS**

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population ¹	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal ²	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable ² Real Property	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2002	\$ 56,997,000	\$ 15,847,000	\$ 41,150,000	231,800	\$ 177.52	\$ 11,130,588,167	0.37 %	\$ 10,350,628,778	0.40 %
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	10,724,685,837	0.40	9,903,888,713	0.44
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,620,947,855	0.51	8,814,516,041	0.56
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	9,140,641,057	0.53	8,423,860,600	0.57
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	8,519,901,214	0.27	7,859,292,010	0.29
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,487,696,517	0.42	6,850,027,133	0.46
1996	44,885,000	14,529,594	30,355,406	206,100	147.28	7,749,015,079	0.39	6,516,782,050	0.47
1995	49,573,000	13,486,759	36,086,241	203,076	177.70	7,325,699,668	0.49	6,243,138,433	0.58
1994	42,845,000	12,423,441	30,421,559	199,350	152.60	7,070,208,736	0.43	6,040,320,804	0.50
1993	47,954,000	12,945,562	35,008,438	197,482	177.27	5,535,890,695	0.63	4,569,474,800	0.77

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual.

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**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

	Gross Revenue	Direct Operating Expenses	Net Revenue Available For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
<u>Wastewater System</u>							
2002	\$ 15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
1996	15,158,461	7,082,660	8,075,801	1,070,000	677,886	1,747,886	4.62
1995	14,978,232	6,785,101	8,193,131	1,020,000	728,840	1,748,840	4.68
1994	14,366,125	6,538,152	7,827,973	970,000	776,009	1,746,009	4.48
1993	13,145,256	6,398,829	6,746,427	910,000	821,593	1,731,593	3.90
<u>Water System</u>							
2002	\$ 22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,345,000	2,730,407	5,075,407	2.42
1996	20,152,071	8,072,097	12,079,974	2,265,000	2,829,751	5,094,751	2.37
1995	20,467,243	7,622,280	12,844,963	2,195,000	2,963,950	5,158,950	2.49
1994	20,256,136	6,858,777	13,397,359	2,145,000	3,036,215	5,181,215	2.59
1993	17,866,972	6,359,712	11,507,260	1,230,000	3,096,495	4,326,495	2.66
<u>Parking Facilities</u> 1, 2							
2002	\$ 5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
1996	3,411,735	1,271,655	2,140,080	415,000	908,380	1,323,380	1.62
1995	3,205,953	1,025,468	2,180,485	400,000	483,214	883,214	2.47
1994	2,242,835	724,003	1,518,832	110,000	316,975	426,975	3.56
1993	2,101,383	608,667	1,492,716	220,000	331,262	551,262	2.71

- 1 Includes parking meter revenues which were deposited to the General Fund but are pledged per bond ordinance.
- 2 Information in this table does not agree with information in the transmittal letter of the City's CAFR because that information is calculated in accordance with specific requirements of the bond covenants.

CITY OF LINCOLN, NEBRASKA
GENERAL BONDED INDEBTEDNESS AND DEBT SERVICE FUND
SUMMARY CASH FLOW STATEMENT
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>
Cash Balance - September 1 of Year Indicated	2,000,428	2,518,561	3,006,570	3,705,634	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198
Receipts:										
Property Tax	4,804,595	4,713,228	4,435,594	4,325,012	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938
Interest Income	85,820	50,564	67,073	151,746	166,270	236,658	145,534	174,146	107,693	53,873
Bond Proceeds	777,696						189,482			
Other Income	<u>168,140</u>	<u>1,433</u>	<u>147,490</u>	<u>216,570</u>	<u>656,811</u>	<u>116,996</u>	<u>54,475</u>	<u>247,591</u>	<u>235,736</u>	232,009
Total Receipts	<u>5,836,251</u>	<u>4,765,225</u>	<u>4,650,157</u>	<u>4,693,328</u>	<u>5,173,674</u>	<u>4,815,282</u>	<u>4,864,557</u>	<u>6,265,121</u>	<u>6,157,918</u>	<u>6,626,820</u>
Disbursements:										
Bonds Paid	2,964,995	2,692,151	2,809,007	2,801,208	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254
Bonds Defeased										
Interest Paid	2,074,700	1,551,148	1,482,193	1,835,496	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322
Transfer to Trustee	165,833						164,400			
Other Disbursements	<u>112,590</u>	<u>33,917</u>	<u>13,281</u>	<u>13,765</u>	<u>5,965</u>	<u>12,464</u>	<u>164,990</u>	<u>13,878</u>	<u>10,255</u>	<u>3,905</u>
Total Disbursements	<u>5,318,118</u>	<u>4,277,216</u>	<u>4,304,481</u>	<u>4,650,469</u>	<u>4,921,390</u>	<u>5,133,961</u>	<u>5,010,253</u>	<u>6,488,118</u>	<u>6,372,125</u>	<u>6,285,481</u>
Equity Transfer			<u>353,388</u>							
Cash Balance - August 31 of Year Indicated	<u>2,518,561</u>	<u>3,006,570</u>	<u>3,705,634</u>	<u>3,748,493</u>	<u>4,000,777</u>	<u>3,682,098</u>	<u>3,536,402</u>	<u>3,313,405</u>	<u>3,099,198</u>	<u>3,440,537</u>

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
SUMMARY CASH FLOW STATEMENT
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>
Cash & Investment Balance - September 1 of Year Indicated	2,003,110	6,578,059	13,711,860	17,986,481	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768
Receipts:										
Property Tax	19,409,013	19,576,322	19,566,778	19,400,997	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414
City Sales & Use Tax	25,920,431	29,739,476	31,420,946	33,543,308	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492
Other Income	<u>16,275,304</u>	<u>18,048,188</u>	<u>19,455,828</u>	<u>20,709,728</u>	<u>18,708,672</u>	<u>19,373,404</u>	<u>19,991,222</u>	<u>21,339,093</u>	<u>21,786,016</u>	<u>26,342,414</u>
Total Receipts	61,604,748	67,363,986	70,443,552	73,654,033	74,900,764	75,806,677	82,375,147	84,434,604	86,556,507	95,089,320
Less Disbursements	<u>57,029,799</u>	<u>60,230,185</u>	<u>66,168,931</u>	<u>71,040,917</u>	<u>68,958,155</u>	<u>79,606,298</u>	<u>80,048,599</u>	<u>82,688,992</u>	<u>88,568,484</u>	<u>93,302,095</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,578,059</u>	<u>13,711,860</u>	<u>17,986,481</u>	<u>20,599,597</u>	<u>26,542,206</u>	<u>22,742,585</u>	<u>25,069,133</u>	<u>26,814,745</u>	<u>24,802,768</u>	<u>93,302,095</u>

CITY OF LINCOLN, NEBRASKA
SPECIAL ASSESSMENT REVOLVING FUND
SUMMARY CASH FLOW STATEMENT
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>
Cash & Investment Balance - September 1 of Year Indicated	6,583,173	6,439,598	6,746,441	6,053,742	4,855,959	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207
Receipts:										
Special Assessment Collections	2,349,437	2,211,020	1,883,342	2,080,536	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347
Interest on Special Assessments	553,627	559,039	453,933	403,880	418,003	285,279	367,309	310,558	257,157	294,839
City's Share of Costs	1,285,566	923,341	1,608,296	203,943	161,620		2,038,202	895,961	2,516,175	2,145,574
Developers' Share of Costs	11,649	582,000		14,163	40,508	685,754	75,572		473,445	4,617
Bond Proceeds	1,484,535									
Interest on Investments	224,539	189,783	259,639	312,003	253,112	341,581	241,768	286,460	219,536	137,143
Miscellaneous	<u>1,435</u>	<u>864</u>	<u>67,011</u>	<u>583</u>	<u>4,134</u>		<u>244,724</u>	<u>993,245</u>	<u>144,005</u>	<u>474,438</u>
Total Receipts	<u>5,910,788</u>	<u>4,466,047</u>	<u>4,272,221</u>	<u>3,015,108</u>	<u>2,849,459</u>	<u>3,131,357</u>	<u>4,960,078</u>	<u>4,124,457</u>	<u>5,139,670</u>	<u>4,416,958</u>
Disbursements:										
Construction Costs	2,554,435	2,135,297	3,018,759	2,408,261	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434
Bonds Paid	2,491,700	1,226,100	1,105,000	1,170,000	1,115,000	1,105,000	785,000	770,000	270,000	110,000
SID Warrants										
Interest Paid on Bonds & Notes	539,099	396,254	342,607	285,745	225,544	167,055	110,155	67,293	39,438	24,762
Other Refunds & Expenses	<u>469,129</u>	<u>401,553</u>	<u>498,554</u>	<u>348,886</u>	<u>511,312</u>	<u>14,589</u>	<u>2,085,246</u>	<u>987,069</u>	<u>2,370,458</u>	<u>383,336</u>
Total Disbursements	<u>6,054,363</u>	<u>4,159,204</u>	<u>4,964,920</u>	<u>4,212,892</u>	<u>2,555,026</u>	<u>2,924,631</u>	<u>5,313,834</u>	<u>4,163,361</u>	<u>6,325,921</u>	<u>1,608,532</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,439,598</u>	<u>6,746,441</u>	<u>6,053,742</u>	<u>4,855,959</u>	<u>5,150,392</u>	<u>5,357,118</u>	<u>5,003,362</u>	<u>4,964,458</u>	<u>3,778,207</u>	<u>6,586,633</u>

APPENDIX B

FINANCIAL STATEMENTS

January 4, 2003

Dear Citizens and Public Officials:

I am pleased to submit the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2002.

Fiscal discipline is the rule of my Administration. We enforce fiscal responsibility to stay within the operating budget, despite difficult economic times. Our stable city government is an asset to Lincoln's overall economy.

Lincoln residents are proud of our City. The City's future is bright as it continues to grow and prosper. City finances are solid. Many departments continue to meet the increasing demand for services without additional resources.

Our ability to manage the City's fiscal affairs and ensure a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion that follows. I am proud to report that the 2001 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the nineteenth consecutive year. This recognition is a credit to the City and a compliment to our dedicated Finance Department.

I express a special thank you to the Finance Department employees for their commitment in dealing with these complex accounting issues and to all the city departments for their cooperation in the preparation of this document.

Sincerely,

Don Wesely
Mayor of Lincoln

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January 3, 2003

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lincoln:

The Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2002, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities including all currently effective statements of the Governmental Accounting Standards Board have been included.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Single Audit Sections.

- ◆ The Introductory Section, which is unaudited, contains a listing of the Officials of the City of Lincoln, an Organization Chart, a Table of Contents, a Letter of Transmittal from the Mayor, this Letter of Transmittal, and a reproduction of the City's Certificate of Achievement for Excellence in Financial Reporting for the year preceding the report.
- ◆ The Financial Section includes an Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements (including Notes to the Financial Statements), Combining, Subcombining, and Individual Fund Statements and Schedules, and narrative explanations which can be used in understanding combining, subcombining, and individual fund statements and schedules.
- ◆ The Statistical Section, which is unaudited, presents comparative data for several periods of time or contains data from sources other than the accounting records. Statistical tables differ from financial statements because they usually cover more than two fiscal years and may present non-accounting data. Statistical tables reflect social and economic data, financial trends, and the fiscal capacity of the government.
- ◆ The Single Audit Section contains information related to the City's annual single audit, which is required under the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Included are a Supplementary Schedule of Expenditures of Federal Awards, Notes to Supplementary Schedule of Expenditures of Federal Awards, the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*, the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, and a Schedule of Findings and Questioned Costs.

The City of Lincoln provides a full range of services, including public safety (police and fire), highways and streets, health, planning and zoning, parks, recreation, urban development, mass transportation, ambulance transport, electric utility, water utility, wastewater utility, sanitary landfill, golf courses, auditorium, parking facilities, and general administrative services. The City Council exercises budgetary and/or rate setting authority over the City Library and Lincoln Electric System (LES), neither of which are legally separate from the City and are thus included as part of the primary government. The Lincoln Water System, Lincoln

Wastewater System, Emergency Medical Services, Parking Lots, Parking Facilities, Golf Courses and Pershing Municipal Auditorium are all part of administrative departments under the direction of the Mayor and are included as part of the primary government. Separately audited financial statements are available for LES, Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, the City's Sanitary Landfill, and the Community Health Permanent Endowment Trust.

Economic Condition And Outlook

Population growth is one of the best indicators of a community's economic well being. As such, the Lincoln metropolitan area's population growth during the past several years reflects a community that is economically viable and is strongly positioned to meet future challenges.

The Lincoln metropolitan area population base (Lancaster County) continues to demonstrate a pattern of sustained growth. According to the U. S. Census figures, the Lincoln metropolitan area population grew over 17% between 1990 and 2000, adding over 3,350 people to the community each year. The 1990 population of 213,641 reached 250,291 persons with the 2000 census, setting the County's annualized rate of population growth for the 1990's at 1.6 percent.

While such a growth rate may be modest by some standards, this healthy pace of expansion places Lincoln as one of the fastest growing communities in this region. Recent projections envision Lincoln to continue to grow at a rate of 1.5 percent per year. As importantly, the City of Lincoln continues to absorb about 90% of all growth in Lancaster County.

Lincoln's unemployment rate at August 31, 2002, was 3%, well below the national average of 5.7%. Lincoln employment is strongest in the categories of government, services, and wholesale and retail trade.

Lincoln's construction activity has remained fairly stable over the past 5 years based on the number of permits issued. The total value of all forms of 2002 construction permits has risen approximately \$225 million over 1997 values.

Current net sales and use tax revenue increased 2% over the previous fiscal year.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately \$15 million of public expenditures funded through various urban development projects and programs over the next three years. These projects are varied in type and size and are located in the Downtown and Haymarket areas, North 27th Street area, Havelock and University Place business areas, Focus Area neighborhoods and the Antelope Valley project area, and in low and moderate income areas throughout the City.

Financing will be provided by a variety of sources, including CDBG, HOME, EDI Special Project and Nebraska Affordable Housing Trust Fund grants, Tax Increment Financing, Advanced Land Acquisition funds, Special Assessments, General Fund and Street Construction funds. Funding is often combined with developer, grant or other private sector funds.

The City's involvement will vary depending upon the project and could likely include property acquisition, relocation and demolition; housing rehabilitation and development; commercial development; and construction of public improvements including parking, sidewalks, infrastructure and streetscapes.

Ongoing and anticipated projects include:

- ◆ Downtown Redevelopment Projects:
 - 1) Sale and redevelopment of the Old Federal Building
 - 2) Development of a downtown entertainment center
 - 3) Downtown I-180 entryway improvements
 - 4) 12th, "N" to "Q" Streets streetscape project

- ◆ The North 27th Street Corridor redevelopment projects include:
 - 1) Redevelopment of the “Old Broom Factory” site, “X” to “Y” Streets
 - 2) Redevelopment of 27th Street north of the alley between “O” and “P” Streets to “P” Street
 - 3) Redevelopment of the east side of 27th Street at approximately “X” Street
 - 4) Redevelopment of the east side of 27th Street between “S” and “T” Streets
 - 5) Construction of the pedestrian trail bridge at “X” Street
- ◆ Antelope Valley community revitalization projects as identified in the Redevelopment Plan, currently in progress with completion of the Plan anticipated in August, 2003
- ◆ Housing rehabilitation and development programs:
 - 1) Continuation of First-time Homebuyer, Investor-Owner, and Owner-Occupied housing rehabilitation loan programs
 - 2) Participation in Elliott School District Revitalization Project with Nebraska Investment Finance Authority (NIFA)
 - 3) Continuation of Troubled Property program
 - 4) Acquisition and development of Old Mill Village with Nebraska Housing Resource
- ◆ Housing Rehabilitation and Real Estate Division projects also include:
 - 1) Planning and negotiation for acquisition of park sites
 - 2) Acquisition and negotiation projects – South 14th Street widening; Yankee Hill widening, 27th – 40th; South 84th Street Widening (3 phases); Vine Street widening, 22nd – 26th; Antelope Valley 19th Street, K – Q; Storm Water management, Phase I, II & III; Vine Street bridge replacement; Salt Valley trunk sewer phase IIB; Pioneer Park pumping station project; 84th Street water main; East “O” Street widening; Pioneers Boulevard widening, 70th to 84th Streets; Sewer District 1175; special assessment and executive order projects; various projects in Public Works/Utilities 6-year program, other Parks and Recreation projects city-wide; and title research of water transmission – Lincoln to Ashland
 - 3) Acquisition and disposition of surplus properties including tax sale lots, street and alley vacation, surplus park sites, surplus right-of-way and other miscellaneous properties
- ◆ Neighborhood Revitalization projects include:

Focus Areas – Implementation of focus area public improvements. The focus areas are located in the Woods Park, Near South, Malone, Everett, Clinton, Downtown, North Bottoms and South Salt Creek neighborhoods. Projects include North Bottoms lighting and signage improvements and Vine Street revitalization.
- ◆ The Workforce Investment Act (WIA) is federal legislation which took effect on July 1, 2000. Under this legislation, Mayor Don Wesely is the designated Chief Elected Official and has appointed a 48 member Workforce Investment Board. This Board is constituted by law with a business majority. Other members represent community based organizations, education, economic development, organized labor, and program partner agencies. The Board and the Mayor developed a local plan to implement WIA which was approved by the State of Nebraska.

WIA has provided approximately \$2 million over the last three years to the workforce investment area of Lancaster and Saunders Counties. Gold’s Galleria, located in downtown Lincoln, is the site of the newly remodeled One Stop Career Center.

Since 2000, the number of program partners providing access to services through the One Stop has increased from 5 to 21. And in the past year, over 15,000 customers have passed through the One Stop Career Center.

Antelope Valley Project

The City of Lincoln, Lower Platte South Natural Resources District and the University of Nebraska-Lincoln have jointly partnered with the Lincoln community to develop a set of strategies to strengthen the historical center of Nebraska’s Capital City. The new stormwater, transportation and community revitalization

strategies have been incorporated into the Antelope Valley Amended Draft Single Package and formally approved by all three of the sponsoring governmental entities. The Joint Antelope Valley Authority (JAVA) has also submitted an Environmental Impact Statement (EIS) proposing defined projects as the action that best satisfies the purposes and needs with the least adverse environmental impacts. The EIS was approved by a Record of Decision by the Federal Highway Administration on October 31, 2001.

When implemented the Antelope Valley Projects will provide significant benefits to the State of Nebraska. Recognizing these benefits, the State Legislature authorized and appropriated one million dollars each state fiscal year, for a period of 15 years, to the City of Lincoln to fund the various projects. The City is required to provide matching funds equal to the ratio of one dollar for each three dollars of the State distribution.

The Antelope Valley Projects include community revitalization strategies in the project area and the implementation of the Closer to Home Strategies, developed by neighborhood residents and the City's Urban Development Department, which includes street, alley, and curb improvements, housing rehabilitation, and neighborhood clean-ups. Additional community revitalization strategies will be further defined as part of the Redevelopment Plan process, and will include housing relocation, commercial development and strategies to further strengthen existing neighborhoods.

Other projects identified are the construction of the approximately 10.2 mile Antelope Valley Roadway, which includes an overpass over the mainline railway west of the Bob Devaney Center, an expanded 19th Street corridor, changing some streets from minor arterials to urban collectors and local streets, and reduction of the rail/vehicular/pedestrian conflicts at street crossings.

Also included is the implementation of the Antelope Valley flood control project by constructing a new, open channel to contain the waters of a designated "100-year" rainfall event. The new channel will be developed in a park-like atmosphere and a trail will be constructed along the length of the channel.

Work has begun on two projects that are part of the overall Antelope Valley Project. The Northeast Community Park project, located near 32nd and Leighton Streets, began in July, 2002, and will provide replacement ball fields for those University fields at 19th and Vine Streets that will be displaced due to the channel and roadway construction. Work began in January, 2003, on the first section of channel work between Salt Creek and the BNSF Railway.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$65,921,100 over the 6-year period of 2002-2003 through 2007-2008. Of that total, approximately \$180,000 will be financed by developer contributions, approximately \$44,500,000 will be financed by revenue bonds, with the remaining \$21,241,100 to come from charges for services. The majority of these dollars are needed for nitrification and secondary treatment improvements at both the Theresa and Northeast treatment plants, trunk sewer extensions, disinfection and aeration system improvements at both treatment facilities, and general replacement of sanitary sewer lines.

Water System

The Lincoln Water System is projecting a capital improvements program in the amount of \$58,019,000 over the 6-year period of 2002-2003 through 2007-2008. Of these dollars, approximately \$30,000,000 will be financed through revenue bonds, approximately \$1,503,000 will be financed through developer contributions, \$530,000 will be financed by State funds, and the balance of \$25,986,000 will come from charges for services. The major projects contributing to these total dollars include the installation of transmission lines, replacement mains, replacement wells, and additional storage reservoirs.

Streets And Highways

The 2003-2008 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over \$63 million for the next six years. Funding for these projects includes \$111 million in City revenues, \$208 million in federal aid, and \$60 million in other funds.

Infrastructure Impact Fees

The City's growth in both population and employment have created demands for new residential and nonresidential development, which in turn creates the need for additional public facilities, including water and wastewater systems, arterial streets, and neighborhood parks and trails. Under the City's current laws, taxes, fees, utility charges, and other forms of revenue generated from new development do not provide sufficient funds to finance these new facilities.

In response to these funding needs the City of Lincoln passed an ordinance to provide for the imposition of impact fees to ensure that facilities are available to serve new growth and that new development bears its proportionate share of the cost of improvements to the City's facilities. Impact fees for all types of new construction have been set and adopted by the City Council and are scheduled to begin June 2, 2003.

Internal Accounting Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or dispositions, and the reliability of financial records for preparing financial statements in accordance with generally accepted accounting principles and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Several major internal controls within the Finance Department affect transactions from all City departments. The City Charter requires the City Controller to audit all departmental expenditures as to documentation, coding, etc., after they have been approved by the responsible department head. A monthly reconciliation is made between the City's accounting system and the Treasurer's Office. The Purchasing Ordinance requires that all purchase requisitions must include certification by the Director of the ordering department that money has been appropriated for that purpose. The City has a fixed asset system which includes monitoring acquisition and disposition of fixed assets. In addition to these major controls, there are numerous controls within the various departments. The above is not all-inclusive of the City's internal accounting controls, but serves to indicate that controls are adequate to safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management of the City.

As part of the City's Single Audit, tests were made of the City's internal control structure and its compliance with applicable laws and regulations, including those related to major federal financial assistance programs. The Single Audit for the year ended August 31, 2002, disclosed no material internal control weaknesses.

Accounting System And Budgetary Control

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues, and expenses/expenditures. More information on descriptions of each fund and the accounting principles applied to each fund type is included in the Financial Section.

Budgetary control is maintained at the department level by the encumbrance of balances with purchase orders prior to payment to vendors. Purchase orders which result in an overrun of department balances are not released until additional appropriations are made available. Open encumbrances are reported as reservations of fund balance at August 31, 2002. Except for certain Special Revenue, Debt Service, and Capital Projects Funds, budgets for Governmental Type Funds are adopted annually. Capital Project Funds are budgeted by

project and appropriations are continuing appropriations through completion of the project. Enterprise, Internal Service and Pension Trust Fund budgets are adopted annually.

As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

Property Tax Collections

As of August 31, 2002, current tax collections by the County Treasurer were 96.35% of the tax levy, a decrease of .28% from last year. Allocations of property tax levy by purpose for 2001-2002, and the preceding two fiscal years are as follows:

<u>City Tax Levy By Purpose</u>	<u>2001-2002</u>	<u>2000-2001</u>	<u>1999-2000</u>
General Fund	.17798	.18692	.18282
Library	.05219	.04673	.04614
Social Security	.01527	.01576	.01632
Police And Fire Pension	.01261	.01090	.01057
General Obligation Debt	.05647	.06356	.06802

Parking Facilities

The City of Lincoln operates the following parking garages:

	<u>Number Of Stalls</u>	<u>Date Opened</u>
Center Park	1,048	November, 1978
Cornhusker Square	405	December, 1983
University Square	436	April, 1990
Que Place	700	October, 1994
Carriage Park	710	February, 1995
Market Place	430	August, 2000
Haymarket	420	August, 2002

The City's parking garages have been built to promote downtown redevelopment efforts by working with private industry in providing necessary parking to various businesses in the downtown area.

Revenue generated by the parking facilities and on-street parking meters, as well as unappropriated street construction funds, are pledged for debt service of both the 2001 Parking Revenue Bonds and the 1999 Parking Revenue and Refunding bonds. Comparative data for the past two fiscal years are presented in the following table:

	<u>2001-2002</u>	<u>2000-2001</u>
Operating Revenue	\$4,347,985	3,964,969
Operating Income Before Depreciation	2,383,596	1,837,619
On-Street Parking Meter Revenue	935,000	932,190
Revenue Available For Debt Service	3,318,596	2,769,809
Debt Service	2,160,650	1,696,538
Debt Service Coverage Ratio	1.54	1.63

Sanitary Landfill

The City of Lincoln owns and operates a solid waste disposal area and a construction and demolition disposal area which are subject to the U.S. Environmental Protection Agency rule "Solid Waste Disposal Facility Criteria", which establishes closure and postclosure care requirements. As of August 31, 2002, the City estimates that it will incur costs approximating \$16 million to adhere to such requirements (see Note 19 of Notes to the Financial Statements).

Water And Wastewater System

The City's Water Utility System showed an increase in operating revenue and a decrease in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Water System</u>	<u>2001-2002</u>	<u>2000-2001</u>
Operating Revenue	\$22,064,404	20,869,133
Operating Income	5,459,267	5,487,655
Revenue Available For Debt Service	11,213,356	11,326,824
Debt Service	4,990,590	4,995,075
Debt Service Coverage Ratio	2.25	2.27

The City's Wastewater Utility System showed an increase in operating revenue and a decrease in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Wastewater System</u>	<u>2001-2002</u>	<u>2000-2001</u>
Operating Revenue	\$15,026,486	14,945,415
Operating Income	2,366,636	3,499,364
Revenue Available For Debt Service	7,063,462	8,576,287
Debt Service	1,309,347	1,317,472
Debt Service Coverage Ratio	5.39	6.51

Lincoln Electric System (LES)

The City owns and operates its own electric utility system which is managed by an administrative board. Actions of the board with regard to rates, budgets, and long-term financing are subject to final review and approval by the City Council. In accordance with Section 2.55.090 of the Lincoln Municipal Code, LES operates on a January 1 - December 31, fiscal year. Audited financial information as of and for LES' fiscal year ended December 31, 2001, is included in the City's August 31, 2002, financial statements.

Cash Management

Cash temporarily idle during the year was invested in interest-bearing deposits of U.S. government securities. During the 2001-2002 fiscal year, 98.91% of available funds were invested in interest-bearing deposits or government securities. The average yield on investments was 2.69%. Note 4 of Notes to the Financial Statements discloses the City's investment policies and the manner in which these investments are held.

Risk Management

The City's Risk Management Division is responsible for the administration of insurance and self-insurance loss control, wellness, benefits, claims administration and collections to control and finance the City's loss exposures. Responsibilities include researching insurance markets, preparing bid specifications and cost-effectively purchasing coverage; reviewing coverage; budgeting annual costs and maintaining actuarial soundness of self-insured claims funds; administering self-insured claims programs in a cost effective manner; and increasing City effectiveness in subrogation/collection recoveries, along with leading the City's safety/loss control and wellness efforts. The City has a high self-insured retention for workers' compensation,

general liability, and employee long-term disability. The City also has some liability exposures related to public officials, property, law enforcement, and public transportation. These programs remain successful for the City. Since implementation, the self-insurance programs have provided the City considerable savings compared to fully insuring all loss exposures.

Independent Audit

The City Charter requires an annual audit to be made of all City funds and accounts by independent certified public accountants selected by the City Council. The Federal government, under the revised OMB Circular A-133, and the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, requires local governments that expend \$300,000 or more in Federal funds in any fiscal year to have a financial and compliance audit performed. Through the efforts of the Finance Department staff and staff from the Public Works and Aging Services departments, the City was able to accommodate the Federal government's single audit requirements for grants.

Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincoln, Nebraska, for its comprehensive annual financial report for the fiscal year ended August 31, 2001. This was the nineteenth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Don Herz
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lincoln,
Nebraska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



William Patrick Pate
President

Jeffrey L. Esser
Executive Director

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FINANCIAL SECTION

Independent Auditors' Report

The Honorable Mayor
and Members of the City Council
City of Lincoln, Nebraska:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska, as of and for the year ended August 31, 2002, which collectively comprise the City of Lincoln, Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lincoln, Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and street construction fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in notes 1 and 3, the City of Lincoln, Nebraska has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, No. 37, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2003, on our consideration of the City of Lincoln, Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 5 through 14 and the schedules of funding progress and employer contributions included in note 13 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements listed in the foregoing table of contents and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

/s/ **KPMG LLP**

January 3, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2002. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page viii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 16).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2002, by \$1,072,976,089 (net assets). Of this amount, \$125,959,478 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$70,126,667. Of this amount \$54,675,536, or 78 percent, was an increase in governmental activities and \$15,451,131, or 22 percent, related to business-type activities.
- As of August 31, 2002, the City's governmental funds reported combined ending fund balances of \$170,547,426, an increase of \$11,161,199 in comparison with the prior year. Over half of this total amount, \$96,798,919, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2002, unreserved fund balance for the general fund was \$36,735,397, or 47 percent of total general fund expenditures.
- The City's total bonded debt increased by \$108,337,000 (27 percent) during the current fiscal year. The key factor in this increase was the issuance of \$141,150,000 in revenue bonds by Lincoln Electric System.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2002. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job programs, urban development, mass transportation, engineering, self-insurance, and fleet management. The business-type activities of the City include water, wastewater and electric utilities, ambulance transport, sanitary landfill, golf courses, auditorium, and parking.

The government-wide financial statements can be found on pages 16-17 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

The City maintains thirty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street Construction fund, and the Community Health Permanent Endowment fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General and Street Construction major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its parking facilities and lots, golf courses, auditorium, sanitary landfill, ambulance services, wastewater, water, and electric systems. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its data processing, engineering, insurance, fleet management, telecommunications, and copy services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Electric Systems, all of which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statement. Individual fund data for these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 26-27 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-62 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 54 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This discussion and analysis requires focus on the current-year results in comparison with the prior year and the positive and negative aspects of this comparison. Since 2002 is the first year to report government-wide activities on the accrual basis of accounting, a comparison to the prior year is not possible in all areas of analysis. In subsequent years' reports, the current year/prior year comparisons will be displayed to enhance the reader's understanding of the City's financial position and results of operations.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,072,976,089 at August 31, 2002.

By far the largest portion of the City's net assets (74 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City Of Lincoln Condensed Statement of Net Assets August 31, 2002

	Governmental Activities	Business-type Activities	Total
Current and Other Assets	\$ 223,316,292	308,555,656	531,871,948
Capital Assets	372,780,466	855,103,760	1,227,884,226
Total Assets	596,096,758	1,163,659,416	1,759,756,174
Long-Term Liabilities Outstanding	82,430,754	509,299,026	591,729,780
Other Liabilities	19,897,186	75,153,119	95,050,305
Total Liabilities	102,327,940	584,452,145	686,780,085
Net Assets:			
Invested in Capital Assets,			
Net of Related Debt	321,761,052	476,054,560	797,815,612
Restricted	101,499,367	47,701,632	149,200,999
Unrestricted	70,508,399	55,451,079	125,959,478
Total Net Assets	\$ 493,768,818	579,207,271	1,072,976,089

An additional portion of the City's net assets (14 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (12 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2002, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Statement of Activities and Changes in Net Assets
Year ended August 31, 2002

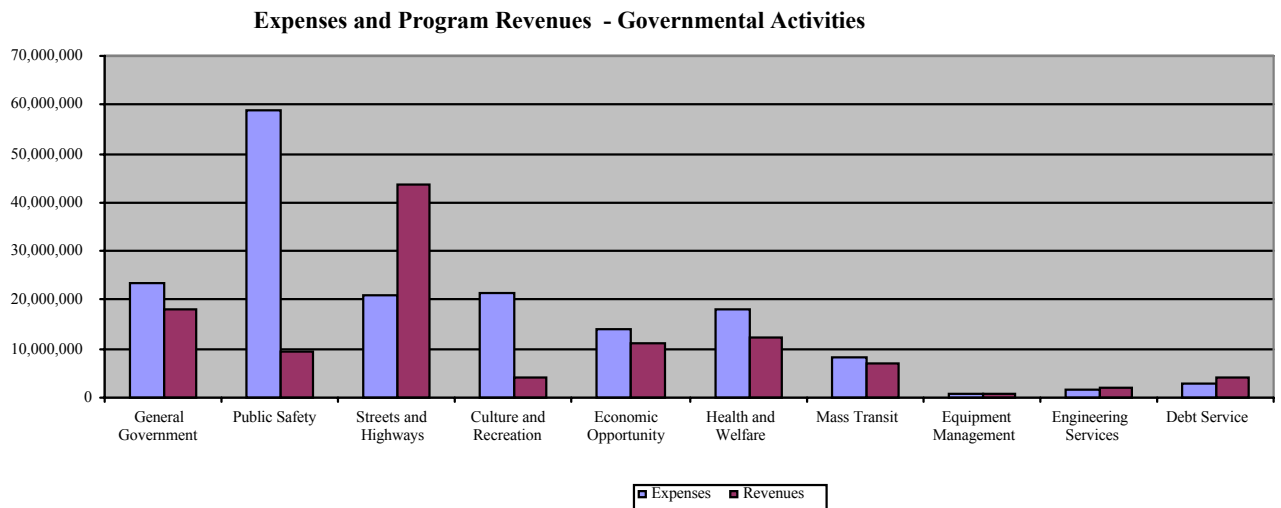
	Governmental Activities	Business-type Activities	Total
Revenues:			
Program Revenues:			
Charges for Services	\$ 33,708,219	214,711,471	248,419,690
Operating Grants and Contributions	56,861,307	3,296	56,864,603
Capital Grants and Contributions	22,629,262	6,073,286	28,702,548
General Revenues:			
Property Taxes	34,991,750	-	34,991,750
Sales and Use Tax	47,049,405	-	47,049,405
Other Taxes	20,414,161	-	20,414,161
Unrestricted Grants and Contributions	3,425,878	-	3,425,878
Investment Income	3,495,539	5,239,848	8,735,387
Other	1,407,755	353,338	1,761,093
Total Revenues	<u>223,983,276</u>	<u>226,381,239</u>	<u>450,364,515</u>
Expenses:			
General Government	23,530,070	-	23,530,070
Public Safety	58,784,389	-	58,784,389
Streets and Highways	21,073,128	-	21,073,128
Culture and Recreation	21,219,904	-	21,219,904
Economic Opportunity	14,097,457	-	14,097,457
Health and Welfare	18,133,340	-	18,133,340
Mass Transit	8,176,390	-	8,176,390
Equipment Management	906,227	-	906,227
Engineering Services	1,810,386	-	1,810,386
Interest and Fiscal Charges on Debt	2,680,738	-	2,680,738
Parking	-	3,914,224	3,914,224
Golf Courses	-	2,785,793	2,785,793
Auditorium	-	2,303,780	2,303,780
Sanitary Landfill	-	5,428,560	5,428,560
Ambulance Transport	-	3,518,764	3,518,764
Wastewater	-	12,659,850	12,659,850
Water	-	18,206,099	18,206,099
Electric	-	161,026,000	161,026,000
Total Expenses	<u>170,412,029</u>	<u>209,843,070</u>	<u>380,255,099</u>
Increase in Net Assets Before Transfers	53,571,247	16,538,169	70,109,416
Transfers	1,104,289	(1,087,038)	17,251
Increase in Net Assets	54,675,536	15,451,131	70,126,667
Net Assets 09/01/01	439,093,282	563,756,140	1,002,849,422
Net Assets 08/31/02	<u>\$ 493,768,818</u>	<u>579,207,271</u>	<u>1,072,976,089</u>

GOVERNMENTAL ACTIVITIES

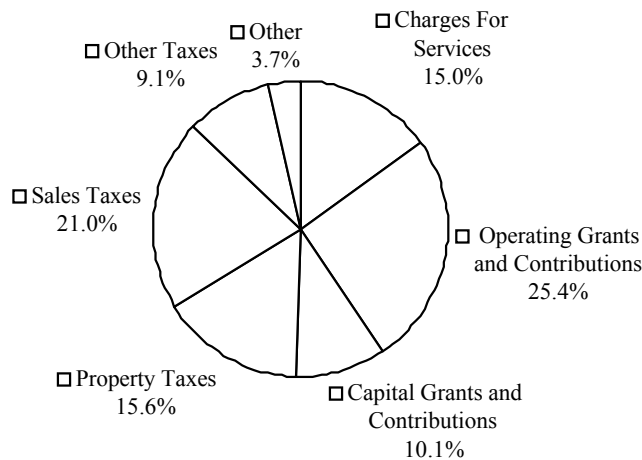
Governmental activities increased the City's net assets by \$54,675,536, accounting for 78 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- Property taxes increased by approximately \$2.1 million (6 percent) during 2002. Adjustments were made to property values to comply with state guidelines regarding the relationship of taxable valuations to market value. The value created by new growth (improvements, new construction, additions of new property, and annexations) in the tax base was 4.3%, prior to the revaluation of property. Total growth in the tax base, which includes revaluations and other adjustments, was 11.5%.
- Net sales and use tax increased by approximately \$3.1 million (7.0 percent) during 2002. A significant factor in this increase was a 27.5 percent reduction in the amount of sales and use taxes that were refunded pursuant to a business expansion incentive program created by State law. Gross sales and use tax, which is the amount collected before the business incentive refunds, increased by 4.6 percent during 2002. This percentage increase more closely mirrors the economic growth within the City during 2002.

- Operating and capital grants increased as a result of several major construction projects receiving state and federal funding and an aggressive grant application strategy undertaken during 2002.
- For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception was the City's highways and streets program. The growth in expenses reflects the City's decision to change its policy regarding the letting of construction projects. Previously, the policy was to delay letting of contracts until adequate cash was on hand to pay for the contract. The current policy is to award contracts when the resources have been secured even if some of the resources are received in subsequent periods.



Revenues By Source - Governmental Activities

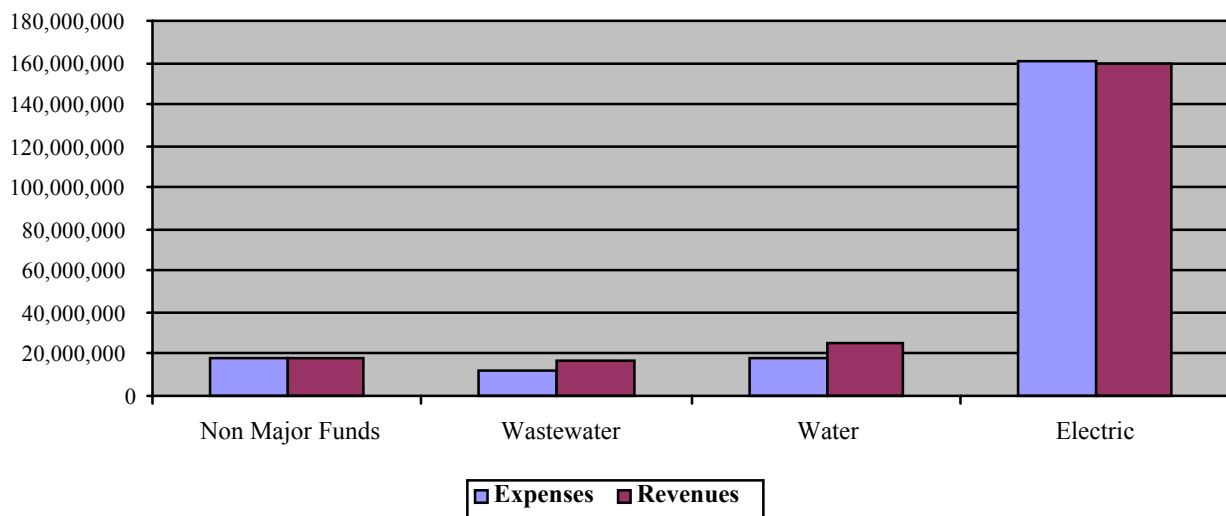


BUSINESS-TYPE ACTIVITIES

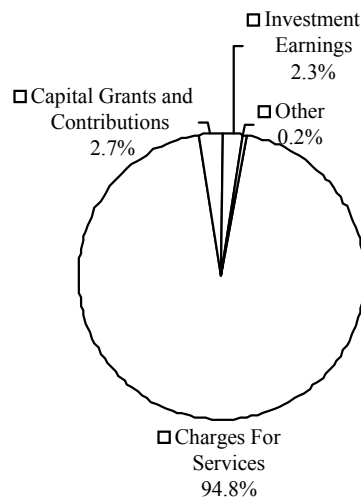
Business-type activities increased the city's net assets by \$15,451,131, accounting for 22 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for services increased by approximately \$5.5 million, or 3 percent. The Water System accounts for a significant portion of this increase, largely due to increased water usage related to the severe drought conditions experienced by Nebraska this past year. In June 2002, the Mayor of the City of Lincoln asked the customers of the System to voluntarily comply with alternate day watering restrictions, which became mandatory a month later. These restrictions lasted into September 2002. Revenues also increased for the Electric System due to 22% higher wholesale revenue from an increase in wholesale sales.
- Capital Contributions were an increased revenue source for the Water System as the result of significant construction activity during the year.

Expenses And Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of August 31, 2002, the City's governmental funds reported combined ending fund balances of \$170,547,426, an increase of \$11,161,199 in comparison with the prior year. Of this total amount, 57 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- liquidate contracts and purchase orders of the prior period (\$20,838,111),
- pay debt service (\$12,630,821),
- generate income for the purpose of funding health and health-related programs for the citizens of Lincoln (\$37,000,000), and
- a variety of other restricted purposes (\$3,279,575).

The General Fund is the chief operating fund of the City. At August 31, 2002, the unreserved fund balance of the general fund was \$36,735,397, while total fund balance reached \$38,131,061. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 47 percent of total general fund expenditures, while total fund balance represents 49 percent of that same amount.

The fund balance of the City's general fund increased by \$2,443,129 during 2002. Due to a weakening economy at the federal and state level, plus a slowing of the growth rate of the City's sales tax revenues, several steps were taken early in the year that resulted in reductions of General fund expenditures. These steps included a:

- freeze on certain capital improvement projects funded with General funds,
- temporary hiring freeze that delayed the filling of approximately 30 positions,
- temporary travel freeze that saved approximately \$72,000 when comparing budget to actual dollars spent.

The Street Construction fund had a total fund balance of \$22,840,924, which is to be used in the construction and maintenance of street and highways. The net decrease in fund balance during 2002 in the Street Construction fund was \$3,058,635. This decrease was anticipated as a result of the Public Works department's strategy to increase its capital construction program and to implement the acceleration of the awarding of construction contracts.

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$14,798,667, \$8,703,342, \$29,226,000 and \$2,723,070, respectively, at August 31, 2002. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (decrease of \$74,416 in appropriations) and can be briefly summarized as follows:

- \$(120,526) in miscellaneous decreases in general government activities.
- \$22,500 in increases allocated to traffic engineering.
- \$23,697 in increases allocated to street maintenance.
- \$(208,000) in decreases allocated to parks and recreation.
- \$207,913 in increases allocated for general fund transfers to other City funds.

Variances between actual General fund revenues and expenditures and the final amended budget included the following:

- \$2,913,599 positive variance in property taxes. Actual property tax collections were 96% for the 2001 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$(2,068,594) negative variance in sales taxes. Projected collections for 2002 reflect a 6.7% increase over prior year collections, while 2002 actual collections on a budget basis increased by only 2% due to refunds and a slowing economy.
- \$1,485,807 positive variance in occupation taxes. Actual collections include the receipt of underpayments of the telecommunications tax in prior years.
- \$2,283,552 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance costs, delayed expenditures when possible in anticipation of reduced revenues, and contingency funds left unspent.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2002, amounts to \$1,227,884,226 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2002 was 8 percent (a 14 percent increase for governmental activities and a 6 percent increase for business-type activities).

Major capital asset events during 2002 included the following:

- Construction was completed on two new library facilities; current year expenditures were \$1,579,702.
- Construction was completed on a new swimming pool; current year expenditures were \$1,672,458.
- Construction was completed on a new community recreation center; current year expenditures were \$1,449,845.
- 20 new buses were added to the City's bus system at a value of \$5,107,150.
- A variety of street construction widening and expansion projects for existing streets and bridges began; construction-in-progress as of August 31, 2002, reached \$55,410,408. Current year expenditures for street construction right-of-way were approximately \$6,012,000.
- The utility plant increase represents the completion of the Rokeby 3 unit (a simple cycle industrial-frame peaking unit). The design and construction of the Salt Valley Generating Station began in 2001 and will be commercial in 2003.
- Wastewater System anaerobic digester modifications and improvements; construction-in-progress as of August 31, 2002, is \$3,305,930.

- Wastewater System aeration system improvements; construction-in-progress as of August 31, 2002, is \$2,780,457.
- Construction of a 10 million gallon water storage reservoir; construction-in-progress as of August 31, 2002, reached \$3,393,317.
- Major modification to existing Water System pumping facilities; the asset was placed in service during 2002 at a total cost of \$3,256,910.
- Construction of new and replacement water distribution mains and related projects; construction-in-progress as of August 31, 2002, reached \$8,423,251.
- Construction of a softball complex, through the partnership of the City, University of Nebraska, and a private investor, was completed in the current year. Ownership of the facilities passed to the City through a lease arrangement with the University and the private investor. Total value of the softball complex was recorded at \$3,000,000. The related baseball complex was recorded as an asset in 2001.

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2002 and 2001

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	\$ 37,810,841	30,992,503	14,185,253	13,592,178	51,996,094	44,584,681
Buildings	42,017,061	27,384,764	123,066,708	120,649,382	165,083,769	148,034,146
Improvements Other Than Buildings	31,967,261	27,765,012	225,201,069	215,839,899	257,168,330	243,604,911
Machinery and Equipment	29,958,223	23,025,302	10,731,801	10,493,886	40,690,024	33,519,188
Utility Plant	-	-	396,247,000	363,635,000	396,247,000	363,635,000
Infrastructure	171,464,392	166,198,108	-	-	171,464,392	166,198,108
Construction-in-progress	59,562,688	50,397,524	85,671,929	84,564,371	145,234,617	134,961,895
Total	\$ 372,780,466	325,763,213	855,103,760	808,774,716	1,227,884,226	1,134,537,929

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 43-45 of this report.

LONG-TERM DEBT

At August 31, 2002, the City of Lincoln had total bonded debt outstanding of \$504,645,000. Of this amount, \$56,687,000 comprises debt backed by the full faith and credit of the City and \$310,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City Of Lincoln
Outstanding Bonded Debt
(dollar amounts in thousands)
August 31, 2002 and 2001

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
General Obligation Bonds	\$ 56,687	53,998	-	-	56,687	53,998
Special Assessment Debt With						
Governmental Commitment	310	420	-	-	310	420
Tax-supported Revenue Bonds	11,080	-	-	-	11,080	-
Revenue Bonds	-	-	436,568	341,890	436,568	341,890
Total	\$ 68,077	54,418	436,568	341,890	504,645	396,308

The City's total debt increased by \$108,377,000 (27 percent) during 2002. The key factor in this increase was a \$141,150,000 revenue bond issuance for the City's electric system to fund construction of the Salt Valley Generating Station. The City also issued \$7,500,000 in storm sewer bonds to finance drainage improvements in existing residential areas; \$11,080,000 in tax-supported Antelope Valley project bonds; \$6,000,000 in parking revenue bonds issued primarily for construction of the City's Haymarket parking garage.

During 2002, the City issued revenue refunding bonds to refinance previously outstanding golf course revenue bonds to take advantage of favorable interest rates. The result is expected to be a decrease in future debt service payments of \$600,533.

In addition, \$35,510,000 in outstanding Lincoln Electric 1992 Series A bonds were refunded with taxable commercial paper notes. LES advance refunded the 1992 bonds to restructure its debt and to provide for more flexible covenants and improve business operation.

The City maintains the following credit ratings:

	Moody's Investors <u>Service</u>	Standard And <u>Poor's</u>	Fitch Investors <u>Service</u>
General Obligation Bonds	Aa1	AAA	
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	
Water Revenue	Aa2	AA+	
Parking Revenue	A2	A	
Electric Revenue:			
1993 Bonds	Aa2	AA+	AA
1998 Bonds	Aa2	AA	AA
2001 Bonds	Aa2	AA	AA
Commercial Paper – tax exempt		A1+	F1+
Commercial Paper – taxable	MIG 1	A1+	F1+

Under the City's Home Rule Charter, there is no legal debt margin.

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 46-51 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The increase in the City's property tax base provided by real growth is estimated at 3.2% for 2003. Total growth, including revaluations of current property, is estimated at 3.8%
- Sales tax collections have increased by 2% over each of the past two years, with current collections through January 2003 also showing an increase over the same period in 2002. The sales tax base has been expanded by the Nebraska Legislature to include certain services. Sales tax collections have been negatively impacted by slowing economic growth and record high rate of refunds which are part of the business incentives provided by State law.
- Current overall revenue growth is projected to slow to less than 2%.

All of these factors were considered in preparing the City's budget for the 2003 fiscal year.

During 2002, unreserved fund balance in the general fund increased to \$36,735,397. The City of Lincoln anticipates appropriating \$6,111,631 of this amount for spending in the 2003 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise property taxes during the 2003 fiscal year.

The water and electric utility rates were increased for the 2003 budget year. The water rates were increased by 7 percent while the average increase in the electric rates was 4 percent. The rate increases affected both residential and industrial consumers by approximately the same percentage. These increases are necessary to fund debt service on the new debt issued by the utilities.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Lincoln's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln, Finance Department, 555 South 10th Street, Lincoln, NE 68508.

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLN, NE
STATEMENT OF NET ASSETS
AUGUST 31, 2002

	Governmental Activities	Business Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 79,163,708	5,851,755	85,015,463
Investments	93,836,199	42,354,372	136,190,571
Invested Securities Lending	7,653,943	-	7,653,943
Receivables, (Net of Allowance for Uncollectibles)	11,591,240	26,417,432	38,008,672
Internal Balances	970,767	(970,767)	-
Due from Other Governments	25,111,985	6,702	25,118,687
Inventories	1,512,437	6,859,278	8,371,715
Plant Operation Assets	-	4,073,000	4,073,000
Prepaid Items	454,131	653,454	1,107,585
Deferred Charges and Other Assets	230,786	25,059,912	25,290,698
Restricted Assets:			
Cash and Cash Equivalents	421,999	7,474,462	7,896,461
Investments	423,736	190,586,632	191,010,368
Receivables	1,677	189,424	191,101
Net Pension Asset	374,000	-	374,000
Investment in Joint Venture	1,569,684	-	1,569,684
Capital Assets:			
Non-depreciable	97,373,529	99,857,182	197,230,711
Depreciable (Net)	275,406,937	755,246,578	1,030,653,515
Total Assets	596,096,758	1,163,659,416	1,759,756,174
LIABILITIES			
Accounts Payable	5,483,637	14,113,325	19,596,962
Accrued Liabilities	4,270,383	7,394,468	11,664,851
Due to Other Governments	412,690	122,308	534,998
Unearned Revenue	1,255,451	78,000	1,333,451
Obligations under Securities Lending	7,653,943	-	7,653,943
Other Liabilities	690,966	5,218,156	5,909,122
Notes Payable	-	34,710,000	34,710,000
Matured Bonds and Interest Payable	104,250	-	104,250
Liabilities Payable from Restricted Assets	25,866	13,516,862	13,542,728
Noncurrent Liabilities:			
Compensated Absences:			
Payable within One Year	4,812,008	660,088	5,472,096
Payable in More Than One Year	2,075,565	264,827	2,340,392
Claims and Judgements:			
Payable within One Year	2,692,407	-	2,692,407
Payable in More Than One Year	2,814,937	-	2,814,937
Bonds, Notes and Leases Payable:			
Due within One Year	5,583,150	15,732,038	21,315,188
Due in More Than One Year	64,452,687	482,802,073	547,254,760
Deferred Credits and Other	-	3,274,000	3,274,000
Landfill Closure/Postclosure Accrual	-	6,566,000	6,566,000
Total Liabilities	102,327,940	584,452,145	686,780,085
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	321,761,052	476,054,560	797,815,612
Restricted for:			
Debt Service, Net of Related Debt	14,326,179	29,751,466	44,077,645
Revenue Bond Indentures	-	15,645,422	15,645,422
Capital Projects	42,617,666	2,230,848	44,848,514
Other	-	73,896	73,896
Trust Donations	1,201,549	-	1,201,549
Health Care:			
Expendable	5,624,910	-	5,624,910
Nonexpendable	37,000,000	-	37,000,000
Claims	729,063	-	729,063
Unrestricted	70,508,399	55,451,079	125,959,478
Total Net Assets	\$ 493,768,818	579,207,271	1,072,976,089

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2002

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-Type	Total
	Expenses	Services	Grants and Contributions	Grants and Contributions	Activities	Activities	
Functions/Programs							
Governmental Activities:							
General Government	\$ (23,530,070)	13,145,419	1,339,987	3,789,597	(5,255,067)	-	(5,255,067)
Public Safety	(58,784,389)	5,780,009	3,629,385	-	(49,374,995)	-	(49,374,995)
Streets and Highways	(21,073,128)	3,140,077	25,099,088	15,469,854	22,635,891	-	22,635,891
Culture and Recreation	(21,219,904)	2,455,509	972,729	763,949	(17,027,717)	-	(17,027,717)
Economic Opportunity	(14,097,457)	1,945,026	9,276,326	-	(2,876,105)	-	(2,876,105)
Health and Welfare	(18,133,340)	2,737,636	9,551,826	-	(5,843,878)	-	(5,843,878)
Mass Transit	(8,176,390)	1,559,453	5,307,904	303,639	(1,005,394)	-	(1,005,394)
Equipment Management	(906,227)	811,855	-	-	(94,372)	-	(94,372)
Engineering Services	(1,810,386)	1,877,110	-	202,028	268,752	-	268,752
Interest on Long-Term Debt	(2,680,738)	256,125	1,684,062	2,100,195	1,359,644	-	1,359,644
Total Governmental Activities	(170,412,029)	33,708,219	56,861,307	22,629,262	(57,213,241)	-	(57,213,241)
Business-Type Activities:							
Parking Lots	(187,586)	203,360	-	-	-	15,774	15,774
Golf	(2,785,793)	2,550,487	-	230,397	-	(4,909)	(4,909)
Parking Facilities	(3,726,638)	4,344,732	-	-	-	618,094	618,094
Municipal Auditorium	(2,303,780)	1,804,255	-	5,365	-	(494,160)	(494,160)
Sanitary Landfill	(5,428,560)	5,601,252	-	36,734	-	209,426	209,426
Emergency Medical Services	(3,518,764)	3,894,100	-	-	-	375,336	375,336
Wastewater System	(12,659,850)	14,926,446	-	2,036,060	-	4,302,656	4,302,656
Water System	(18,206,099)	21,971,839	3,296	3,764,730	-	7,533,766	7,533,766
Electric System	(161,026,000)	159,415,000	-	-	-	(1,611,000)	(1,611,000)
Total Business-Type Activities	(209,843,070)	214,711,471	3,296	6,073,286	-	10,944,983	10,944,983
Total Primary Government	\$ (380,255,099)	248,419,690	56,864,603	28,702,548	(57,213,241)	10,944,983	(46,268,258)
General Revenues:							
Property Tax					34,991,750	-	34,991,750
Motor Vehicle Tax					3,589,367	-	3,589,367
Wheel Tax					7,758,565	-	7,758,565
Sales and Use Tax					47,049,405	-	47,049,405
Sundry and In Lieu Tax					45,685	-	45,685
Occupation Tax					9,020,544	-	9,020,544
Unrestricted Grants and Contributions					3,425,878	-	3,425,878
Unrestricted Investment Earnings					3,495,539	5,239,848	8,735,387
Miscellaneous General Revenues					492,161	204,685	696,846
Gain on Sale of Assets					915,594	148,653	1,064,247
Transfers					1,104,289	(1,087,038)	17,251
Total General Revenues and Transfers					111,888,777	4,506,148	116,394,925
Change in Net Assets					54,675,536	15,451,131	70,126,667
Net Assets - Beginning, as restated					439,093,282	563,756,140	1,002,849,422
Net Assets - Ending					\$ 493,768,818	579,207,271	1,072,976,089

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2002

	General Fund	Street Construction Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 20,218,690	9,740,924	191,851	42,550,842	72,702,307
Investments	6,770,645	12,563,677	42,387,688	22,282,793	84,004,803
Invested Securities Lending	-	-	7,653,943	-	7,653,943
Receivables, (Net of Allowance for Uncollectibles)	4,400,536	387,629	1,807	6,288,171	11,078,143
Due from Other Funds	970,476	-	-	507,979	1,478,455
Due from Other Governments	9,309,003	12,865,030	-	2,638,253	24,812,286
Inventories	332,024	51,360	-	718,378	1,101,762
Prepaid Items	222,971	-	-	-	222,971
Restricted Assets:					
Cash and Cash Equivalents	-	-	421,999	-	421,999
Investments	-	-	423,736	-	423,736
Receivables	-	-	1,677	-	1,677
Total Assets	<u>42,224,345</u>	<u>35,608,620</u>	<u>51,082,701</u>	<u>74,986,416</u>	<u>203,902,082</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	469,390	834,849	43,162	819,503	2,166,904
Contracts Payable	-	2,645,532	-	169,288	2,814,820
Accrued Liabilities	2,229,197	112,394	5,749	1,505,141	3,852,481
Due to Other Funds	384,702	10,855	8	552,665	948,230
Due to Other Governments	310,333	53	-	98,819	409,205
Unearned Revenue	-	-	-	603,155	603,155
Obligations under Securities Lending	-	-	7,653,943	-	7,653,943
Deferred Revenue	699,662	9,164,013	-	4,936,357	14,800,032
Matured Bonds and Interest Payable	-	-	-	104,250	104,250
Liabilities Payable from Restricted Assets	-	-	1,636	-	1,636
Total Liabilities	<u>4,093,284</u>	<u>12,767,696</u>	<u>7,704,498</u>	<u>8,789,178</u>	<u>33,354,656</u>
Fund Balances:					
Reserved for:					
Encumbrances	840,669	17,216,170	-	2,781,272	20,838,111
Inventories	332,024	51,360	-	718,378	1,101,762
Prepaid Items	222,971	-	-	-	222,971
Debt Service	-	-	-	12,630,821	12,630,821
Trust Donations	-	-	-	1,201,549	1,201,549
Health Care (non-expendable)	-	-	37,000,000	-	37,000,000
Claims	-	-	753,293	-	753,293
Unreserved, Reported in:					
General Fund	36,735,397	-	-	-	36,735,397
Special Revenue Funds	-	5,573,394	-	18,678,118	24,251,512
Debt Service Funds	-	-	-	4,866,366	4,866,366
Capital Projects Funds	-	-	-	25,320,734	25,320,734
Permanent Fund	-	-	5,624,910	-	5,624,910
Total Fund Balances	<u>38,131,061</u>	<u>22,840,924</u>	<u>43,378,203</u>	<u>66,197,238</u>	<u>170,547,426</u>
Total Liabilities and Fund Balances	<u>\$ 42,224,345</u>	<u>35,608,620</u>	<u>51,082,701</u>	<u>74,986,416</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	364,643,085
Net Pension Asset is not a financial resource and, therefore, not reported in the funds.	374,000
Investment in Joint Venture is not a financial resource and, therefore, not reported in the funds.	1,569,684
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	14,800,032
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	18,647,544
Accrued pension contribution liability requires the use of unavailable financial resources and, therefore, is not reported in the funds.	(37,064)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(76,775,889)
Net assets of governmental activities	<u>\$ 493,768,818</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002

	General Fund	Street Construction Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 20,127,857	-	-	15,841,734	35,969,591
Motor Vehicle	3,589,367	-	-	-	3,589,367
Wheel	-	-	-	7,758,565	7,758,565
Sales and Use	47,049,405	-	-	-	47,049,405
Sundry and In Lieu	29,393	-	-	16,292	45,685
Occupation	9,020,544	-	-	-	9,020,544
Special Assessments	3,937	-	-	1,701,958	1,705,895
Intergovernmental	5,058,689	26,562,396	-	27,408,524	59,029,609
Permits and Fees	2,959,797	239,433	-	9,250,649	12,449,879
Reimbursement for Services	4,802,221	14,446	-	788,890	5,605,557
Program Income	-	-	-	1,354,481	1,354,481
Investment Earnings	755,791	573,608	1,900,793	1,376,633	4,606,825
Donations	710,313	-	-	813,832	1,524,145
Keno Proceeds	-	-	-	3,209,235	3,209,235
Sale of Assets	7,867	-	-	745,446	753,313
Miscellaneous	432,022	3,206,339	13,630	585,782	4,237,773
Total Revenues	<u>94,547,203</u>	<u>30,596,222</u>	<u>1,914,423</u>	<u>70,852,021</u>	<u>197,909,869</u>
EXPENDITURES					
Current:					
General Government	22,014,208	-	-	5,222,926	27,237,134
Public Safety	40,792,147	-	-	9,121,022	49,913,169
Streets and Highways	4,831,446	4,382,704	-	1,618,905	10,833,055
Culture and Recreation	9,643,518	-	-	7,331,280	16,974,798
Economic Opportunity	272,406	-	-	13,745,195	14,017,601
Health and Welfare	279,970	-	2,476,088	15,233,545	17,989,603
Mass Transit	-	-	-	12,691,837	12,691,837
Debt Service	-	-	-	7,411,878	7,411,878
Capital Outlay	-	36,687,770	-	12,774,108	49,461,878
Total Expenditures	<u>77,833,695</u>	<u>41,070,474</u>	<u>2,476,088</u>	<u>85,150,696</u>	<u>206,530,953</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>16,713,508</u>	<u>(10,474,252)</u>	<u>(561,665)</u>	<u>(14,298,675)</u>	<u>(8,621,084)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	1,451,576	10,114,321	-	24,817,497	36,383,394
Transfers Out	(15,721,955)	(2,698,704)	-	(16,901,045)	(35,321,704)
Issuance of Debt	-	-	-	18,580,000	18,580,000
Premiums / Discounts on Debt Issued	-	-	-	140,593	140,593
Total Other Financing Sources (Uses)	<u>(14,270,379)</u>	<u>7,415,617</u>	<u>-</u>	<u>26,637,045</u>	<u>19,782,283</u>
Net Change in Fund Balances	2,443,129	(3,058,635)	(561,665)	12,338,370	11,161,199
Fund Balances - Beginning	<u>35,687,932</u>	<u>25,899,559</u>	<u>43,939,868</u>	<u>53,858,868</u>	<u>159,386,227</u>
Fund Balances - Ending	<u>\$ 38,131,061</u>	<u>22,840,924</u>	<u>43,378,203</u>	<u>66,197,238</u>	<u>170,547,426</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 11,161,199
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	38,162,734
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	8,755,169
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,439,349
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(13,519,180)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(741,069)
Changes in the net pension asset do not represent financial activity in governmental funds.	(403,000)
Changes in the interest in the underlying capital assets of the joint venture do not represent financial activity in governmental funds.	1,569,684
Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds.	(37,064)
Internal service funds are used by management to charge the costs of certain services to individual funds.	<u>287,714</u>
Change in net assets of governmental activities	<u><u>\$ 54,675,536</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Real Estate and Personal Property Tax	\$ 20,996,385	20,996,385	23,909,984	2,913,599
Taxes Collected by Others	47,462,085	47,462,085	45,393,491	(2,068,594)
Sundry Taxes and In Lieu	29,015	29,015	31,621	2,606
Occupation Taxes	7,819,746	7,819,746	9,305,553	1,485,807
Special Assessments	700	700	5,917	5,217
Intergovernmental	4,691,415	4,691,415	5,157,125	465,710
Permits and Fees	2,561,189	2,561,189	2,356,969	(204,220)
Reimbursement for Services	1,524,149	1,524,149	1,839,068	314,919
Court Fees	880,019	880,019	584,485	(295,534)
Recreation Receipts	1,812,071	1,812,071	1,636,142	(175,929)
Investment Earnings	1,057,893	1,057,893	992,092	(65,801)
Donations	779,776	779,776	779,776	-
Rental Income	369,114	369,114	346,695	(22,419)
Parking Revenue	935,000	935,000	935,000	-
Sale of Assets	6,200	6,200	7,867	1,667
Miscellaneous	388,960	388,960	739,630	350,670
Total Revenues	<u>91,313,717</u>	<u>91,313,717</u>	<u>94,021,415</u>	<u>2,707,698</u>
Expenditures:				
General Government:				
Legislative	269,174	269,174	220,597	48,577
Executive	1,285,807	1,301,495	1,109,630	191,865
Financial Administration	2,177,254	2,177,254	1,959,948	217,306
Law	1,770,933	1,770,933	1,640,380	130,553
Personnel Administration	754,155	754,155	715,684	38,471
Planning and Zoning	1,540,714	1,540,714	1,425,545	115,169
Urban Development	648,203	648,203	580,275	67,928
Miscellaneous	16,545,896	16,409,682	14,126,130	2,283,552
Total General Government	<u>24,992,136</u>	<u>24,871,610</u>	<u>21,778,189</u>	<u>3,093,421</u>
Public Safety:				
Police	24,758,273	24,758,273	24,041,677	716,596
Fire	16,206,419	16,206,419	15,610,128	596,291
Traffic Engineering	1,675,499	1,697,999	1,430,401	267,598
Total Public Safety	<u>42,640,191</u>	<u>42,662,691</u>	<u>41,082,206</u>	<u>1,580,485</u>
Streets and Highways:				
Street Maintenance	2,377,319	2,401,016	1,871,325	529,691
Street Lighting	3,225,800	3,225,800	3,219,375	6,425
Total Streets and Highways	<u>5,603,119</u>	<u>5,626,816</u>	<u>5,090,700</u>	<u>536,116</u>
Culture and Recreation:				
Parks and Recreation	9,877,918	9,669,918	9,524,713	145,205
Libraries	60,931	60,931	60,931	-
Total Culture and Recreation	<u>9,938,849</u>	<u>9,730,849</u>	<u>9,585,644</u>	<u>145,205</u>
Economic Opportunity:				
Lincoln Area Agency on Aging	267,239	267,239	267,239	-
Health and Welfare:				
Lincoln/Lancaster County Health	279,198	279,198	279,198	-
Total Expenditures	<u>83,720,732</u>	<u>83,438,403</u>	<u>78,083,176</u>	<u>5,355,227</u>
Excess of Revenues Over Expenditures	<u>7,592,985</u>	<u>7,875,314</u>	<u>15,938,239</u>	<u>8,062,925</u>
Other Financing Sources (Uses):				
Transfers In	1,512,733	1,512,733	1,476,584	(36,149)
Transfers Out	(18,672,909)	(18,880,822)	(15,762,962)	3,117,860
Total Other Financing Sources (Uses)	<u>(17,160,176)</u>	<u>(17,368,089)</u>	<u>(14,286,378)</u>	<u>3,081,711</u>
Net Change in Fund Balances	(9,567,191)	(9,492,775)	1,651,861	11,144,636
Fund Balances Beginning of Year	27,694,318	27,694,318	27,694,318	-
Fund Balances End of Year	<u>\$ 18,127,127</u>	<u>18,201,543</u>	<u>29,346,179</u>	<u>11,144,636</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STREET CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Intergovernmental	\$ 13,500,000	13,500,000	14,896,941	1,396,941
Permits and Fees	-	-	236,288	236,288
Reimbursement for Services	400,000	400,000	14,446	(385,554)
Investment Earnings	1,000,000	1,000,000	686,812	(313,188)
Rental Income	-	-	387	387
Total Revenues	<u>14,900,000</u>	<u>14,900,000</u>	<u>15,834,874</u>	<u>934,874</u>
Expenditures -- Streets and Highways:				
Personal Services	2,546,323	2,546,323	2,675,720	(129,397)
Materials and Supplies	296,435	296,435	404,819	(108,384)
Other Services and Charges	1,512,250	1,512,250	1,231,147	281,103
Capital Outlay	78,100	78,100	66,026	12,074
Total Expenditures	<u>4,433,108</u>	<u>4,433,108</u>	<u>4,377,712</u>	<u>55,396</u>
Excess of Revenues Over Expenditures	<u>10,466,892</u>	<u>10,466,892</u>	<u>11,457,162</u>	<u>990,270</u>
Other Financing Sources (Uses):				
Transfers In	10,114,321	10,114,321	10,114,321	-
Transfers Out	(2,698,704)	(2,698,704)	(2,698,704)	-
Total Other Financing Sources (Uses)	<u>7,415,617</u>	<u>7,415,617</u>	<u>7,415,617</u>	<u>-</u>
Net Change in Fund Balances	17,882,509	17,882,509	18,872,779	990,270
Amount Not Required to be Budgeted	-	-	(22,543,481)	-
Fund Balances Beginning of Year	<u>22,745,043</u>	<u>22,745,043</u>	<u>22,745,043</u>	<u>-</u>
Fund Balances End of Year	<u>\$ 40,627,552</u>	<u>40,627,552</u>	<u>19,074,341</u>	<u>(21,553,211)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2002

	Business-Type Activities -- Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 498,925	1,432,135	105,000	3,815,695	5,851,755	6,461,401
Investments	11,455,211	994,221	24,305,000	5,599,940	42,354,372	9,831,396
Restricted Current Assets:						
Cash and Cash Equivalents	1,073,360	1,584,586	-	-	2,657,946	-
Accrued Interest Receivable	-	2,200	-	-	2,200	-
Accounts Receivable, (Net of Allowance for Uncollectibles)	1,456,198	3,015,155	8,293,000	2,002,232	14,766,585	400,786
Accrued Interest Receivable	62,034	154	408,000	54,342	524,530	112,311
Unbilled Revenues	1,315,633	2,573,684	7,237,000	-	11,126,317	-
Due from Other Funds	-	-	-	12,537	12,537	460,022
Due from Other Governments	-	-	-	6,702	6,702	299,699
Inventories	100,397	841,169	5,753,000	164,712	6,859,278	410,675
Plant Operation Assets	-	-	4,073,000	-	4,073,000	-
Prepaid Expenses	-	-	543,000	110,454	653,454	231,160
Total Current Assets	15,961,758	10,443,304	50,717,000	11,766,614	88,888,676	18,207,450
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	687,317	1,652,304	-	2,476,895	4,816,516	-
Investments	17,113,728	6,977,209	163,710,000	2,785,695	190,586,632	-
Accounts Receivable	-	-	-	5,553	5,553	-
Accrued Interest Receivable	127,676	29,373	-	24,622	181,671	-
Total Restricted Assets	17,928,721	8,658,886	163,710,000	5,292,765	195,590,372	-
Deferred Charges	-	331,177	24,083,000	645,735	25,059,912	-
Capital Assets:						
Land	2,138,362	4,386,767	-	7,660,124	14,185,253	48,250
Buildings	36,948,285	87,276,794	-	48,321,297	172,546,376	351,081
Improvements Other Than Buildings	114,131,419	169,366,277	-	21,888,912	305,386,608	1,163,159
Machinery and Equipment	7,988,285	6,742,019	-	9,178,461	23,908,765	19,800,695
Utility Plant	-	-	628,316,000	-	628,316,000	-
Construction in Progress	14,177,593	12,626,211	58,567,000	301,125	85,671,929	-
Less Accumulated Depreciation	(53,922,048)	(64,161,666)	(232,069,000)	(24,758,457)	(374,911,171)	(13,225,804)
Total Capital Assets, Net	121,461,896	216,236,402	454,814,000	62,591,462	855,103,760	8,137,381
Total Assets	155,352,375	235,669,769	693,324,000	80,296,576	1,164,642,720	26,344,831
LIABILITIES						
Current Liabilities (Payable from Current Assets):						
Accounts Payable	-	-	13,290,000	823,325	14,113,325	501,913
Accrued Liabilities	-	-	7,159,000	235,468	7,394,468	380,838
Accrued Compensated Absences	-	-	-	206,064	206,064	490,073
Due to Other Funds	-	-	-	715,304	715,304	19,480
Due to Other Governments	-	-	-	122,308	122,308	3,485
Unearned Revenue	-	-	-	78,000	78,000	652,296
Claims	-	-	-	-	-	2,692,407
Accrued Interest	-	-	-	7,156	7,156	-
Notes Payable	-	-	34,710,000	-	34,710,000	-
Current Portion of Capital Lease	-	-	-	289,538	289,538	-
Other	-	-	5,211,000	-	5,211,000	-
Total Current Liabilities (Payable from Current Assets)	-	-	60,370,000	2,477,163	62,847,163	4,740,492
Current Liabilities (Payable from Restricted Assets):						
Accounts Payable	1,006,144	450,894	-	552,757	2,009,795	-
Accrued Liabilities	365,366	688,742	-	-	1,054,108	-
Accrued Compensated Absences	212,239	241,785	-	-	454,024	-
Construction Contracts	922,368	2,128,429	-	-	3,050,797	-
Arbitrage Rebate	-	-	-	40,666	40,666	-
Accrued Interest	59,561	238,730	7,019,000	44,205	7,361,496	-
Current Portion of Long-Term Debt	1,032,500	3,010,000	10,035,000	1,365,000	15,442,500	-
Total Current Liabilities (Payable from Restricted Assets)	3,598,178	6,758,580	17,054,000	2,002,628	29,413,386	-
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	268,000	268,000	-
Accrued Compensated Absences	89,731	153,176	-	21,920	264,827	141,858
Claims	-	-	-	-	-	2,814,937
Long-Term Debt, Net	4,560,066	34,549,779	346,623,000	20,720,134	406,452,979	-
Capital Lease Payable	-	-	-	1,349,094	1,349,094	-
Commercial Paper Notes Payable	-	-	75,000,000	-	75,000,000	-
Deferred Credits and Other	-	-	3,274,000	-	3,274,000	-
Landfill Closure/Postclosure Accrual	-	-	-	6,566,000	6,566,000	-
Total Noncurrent Liabilities	4,649,797	34,702,955	424,897,000	28,925,148	493,174,900	2,956,795
Total Liabilities	8,247,975	41,461,535	502,321,000	33,404,939	585,435,449	7,697,287
NET ASSETS						
Invested in Capital Assets, Net of Related Deb	115,869,330	179,007,800	141,664,000	39,513,430	476,054,560	8,137,381
Restricted Net Assets for:						
Debt Service, Net of Related Debt	1,719,318	5,568,755	20,113,000	2,350,393	29,751,466	-
Revenue Bond Indentures	14,717,085	928,337	-	-	15,645,422	-
Improvements	-	-	-	2,230,848	2,230,848	-
Other	-	-	-	73,896	73,896	-
Unrestricted	14,798,667	8,703,342	29,226,000	2,723,070	55,451,079	10,510,163
Total Net Assets	\$ 147,104,400	194,208,234	191,003,000	46,891,637	579,207,271	18,647,544

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002

	Business-Type Activities -- Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
Operating Revenues						
Charges for Services	\$ 15,026,486	22,064,404	159,415,000	3,894,100	200,399,990	22,778,552
Fees	-	-	-	8,021,085	8,021,085	-
Parking Facility Revenue Pledged as Security for Revenue Bonds	-	-	-	2,584,158	2,584,158	-
Parking Facility Revenue - Unpledged	-	-	-	1,962,434	1,962,434	-
Performance Revenue	-	-	-	1,732,094	1,732,094	-
Other Operating Revenue	-	-	-	304,858	304,858	-
Total Operating Revenues	<u>15,026,486</u>	<u>22,064,404</u>	<u>159,415,000</u>	<u>18,498,729</u>	<u>215,004,619</u>	<u>22,778,552</u>
Operating Expenses						
Personal Services	-	-	-	6,177,490	6,177,490	9,786,078
Contractual Services	-	-	-	3,292,647	3,292,647	-
Operation and Maintenance	7,431,452	9,747,888	9,736,000	4,107,691	31,023,031	11,505,119
Purchased Power	-	-	81,197,000	-	81,197,000	-
Depreciation	4,027,563	5,130,704	19,138,000	3,087,898	31,384,165	2,038,411
Payments in Lieu of Taxes	-	-	5,680,000	-	5,680,000	-
Administrative Costs	1,200,835	1,726,545	23,976,000	-	26,903,380	-
Total Operating Expenses	<u>12,659,850</u>	<u>16,605,137</u>	<u>139,727,000</u>	<u>16,665,726</u>	<u>185,657,713</u>	<u>23,329,608</u>
Operating Income (Loss)	<u>2,366,636</u>	<u>5,459,267</u>	<u>19,688,000</u>	<u>1,833,003</u>	<u>29,346,906</u>	<u>(551,056)</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	705,263	623,385	3,467,000	444,200	5,239,848	437,253
Gain (Loss) on Disposal of Assets	-	-	-	(3,142)	(3,142)	53,997
Amortization of Deferred Charges	-	(33,256)	(3,923,000)	(47,760)	(4,004,016)	-
Interest Expense and Fiscal Charges	-	(1,567,706)	(17,376,000)	(1,085,840)	(20,029,546)	(197)
Total Nonoperating Revenues (Expenses)	<u>705,263</u>	<u>(977,577)</u>	<u>(17,832,000)</u>	<u>(692,542)</u>	<u>(18,796,856)</u>	<u>491,053</u>
Income (Loss) Before Contributions and Transfers	<u>3,071,899</u>	<u>4,481,690</u>	<u>1,856,000</u>	<u>1,140,461</u>	<u>10,550,050</u>	<u>(60,003)</u>
Capital Contributions	2,036,060	3,764,730	-	187,329	5,988,119	305,118
Transfers In	-	-	-	346,993	346,993	42,599
Transfers Out	-	-	(1,123,000)	(311,031)	(1,434,031)	-
Change in Net Assets	<u>5,107,959</u>	<u>8,246,420</u>	<u>733,000</u>	<u>1,363,752</u>	<u>15,451,131</u>	<u>287,714</u>
Total Net Assets Beginning of Year	<u>141,996,441</u>	<u>185,961,814</u>	<u>190,270,000</u>	<u>45,527,885</u>	<u>563,756,140</u>	<u>18,359,830</u>
Total Net Assets End of Year	<u>\$ 147,104,400</u>	<u>194,208,234</u>	<u>191,003,000</u>	<u>46,891,637</u>	<u>579,207,271</u>	<u>18,647,544</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002

	Business-Type Activities -- Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
Cash Flows from Operating Activities						
Receipts from Customers and Users	\$ 14,908,300	21,084,121	166,903,000	18,242,224	221,137,645	6,237,367
Receipts from Interfund Services Provided	158,892	529,755	6,583,000	167,124	7,438,771	17,108,398
Payments to Suppliers for Goods and Services	(1,280,853)	(3,412,872)	(109,425,000)	(5,223,740)	(119,342,465)	(9,880,213)
Payments to Employees	(5,274,176)	(5,796,330)	(14,881,000)	(6,104,005)	(32,055,511)	(9,792,283)
Payments for Interfund Services Provided	(441,409)	(1,288,878)	-	(1,104,944)	(2,835,231)	(1,055,614)
Payments in Lieu of Taxes	-	-	(5,584,000)	-	(5,584,000)	-
Other Receipts	-	-	-	304,858	304,858	-
Net Cash Provided by Operating Activities	<u>8,070,754</u>	<u>11,115,796</u>	<u>43,596,000</u>	<u>6,281,517</u>	<u>69,064,067</u>	<u>2,617,655</u>
Cash Flows from Noncapital Financing Activities						
Transfers from Other Funds	-	-	-	388,000	388,000	42,599
Transfers to Other Funds	-	-	(1,086,000)	(311,031)	(1,397,031)	-
Advance from General Fund	-	-	-	70,388	70,388	-
Payment to General Fund	-	-	-	(810,736)	(810,736)	(181,334)
Interest Paid to General Fund	-	-	-	(83,344)	(83,344)	(197)
Net Cash Used by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>(1,086,000)</u>	<u>(746,723)</u>	<u>(1,832,723)</u>	<u>(138,932)</u>
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(7,772,658)	(16,706,809)	(38,039,000)	(7,047,534)	(69,566,001)	(1,988,682)
Proceeds from Sale of Capital Assets	4,586	35,599	-	148,653	188,838	162,281
Proceeds from Long-Term Debt	-	-	186,052,000	9,165,000	195,217,000	-
Debt Issuance Cost	-	-	-	(194,833)	(194,833)	-
Net Cost of Retiring Plant	-	-	(750,000)	-	(750,000)	-
Principal Payments of Capital Lease	-	-	-	(274,680)	(274,680)	-
Principal Payments of Capital Debt	(992,500)	(2,880,000)	(47,000,000)	(4,764,889)	(55,637,389)	-
Interest Paid and Fiscal Charges	(10,338)	(1,503,494)	(16,464,000)	(1,146,989)	(19,124,821)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,770,910)</u>	<u>(21,054,704)</u>	<u>83,799,000</u>	<u>(4,115,272)</u>	<u>49,858,114</u>	<u>(1,826,401)</u>
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	30,135,000	17,700,000	178,920,000	14,502,388	241,257,388	12,419,211
Purchases of Investments	(32,980,982)	(9,495,559)	(309,328,000)	(17,238,975)	(369,043,516)	(11,398,799)
Interest and Other Receipts	1,014,633	696,292	3,591,000	539,616	5,841,541	704,333
Net Cash Provided (Used) by Investing Activities	<u>(1,831,349)</u>	<u>8,900,733</u>	<u>(126,817,000)</u>	<u>(2,196,971)</u>	<u>(121,944,587)</u>	<u>1,724,745</u>
Net Increase (Decrease) in Cash	(2,531,505)	(1,038,175)	(508,000)	(777,449)	(4,855,129)	2,377,067
Balances -- Beginning of Year	4,791,107	5,707,200	613,000	7,070,039	18,181,346	4,084,334
Balances -- End of Year	<u>\$ 2,259,602</u>	<u>4,669,025</u>	<u>105,000</u>	<u>6,292,590</u>	<u>13,326,217</u>	<u>6,461,401</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	\$ 2,366,636	5,459,267	19,688,000	1,833,003	29,346,906	(551,056)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	4,027,563	5,130,704	19,138,000	3,087,898	31,384,165	2,038,411
Changes in Assets and Liabilities:						
Accounts Receivable and Unbilled Revenue:	40,705	(450,529)	2,911,000	265,478	2,766,654	184,835
Due from Other Funds	-	-	-	3,349	3,349	(6,313)
Due from Other Governments	-	-	-	1,064	1,064	100,164
Inventories	49,087	107,085	(161,000)	(4,989)	(9,817)	(15,559)
Plant Operation Assets	-	-	(509,000)	-	(509,000)	-
Prepaid Expenses	-	-	14,000	35,426	49,426	(231,160)
Other Assets	-	-	(403,000)	-	(403,000)	-
Accounts Payable	1,617,678	820,633	(3,454,000)	368,400	(647,289)	97,938
Accrued Liabilities	(41,403)	14,815	-	27,244	656	23,285
Accrued Compensated Absences	10,488	33,821	-	73,236	117,545	68,084
Due to Other Funds	-	-	-	(106,393)	(106,393)	(116,287)
Due to Other Governments	-	-	-	47,653	47,653	(8,224)
Unearned Revenue	-	-	-	(158,852)	(158,852)	288,527
Claims	-	-	-	-	-	745,010
In Lieu of Taxes	-	-	96,000	-	96,000	-
Other Current Liabilities	-	-	189,000	-	189,000	-
Deferred Credits and Other Liabilities	-	-	6,087,000	-	6,087,000	-
Landfill Closure/Postclosure Accrual	-	-	-	809,000	809,000	-
Total Adjustments	<u>5,704,118</u>	<u>5,656,529</u>	<u>23,908,000</u>	<u>4,448,514</u>	<u>39,717,161</u>	<u>3,168,711</u>
Net Cash Provided by Operating Activities	<u>\$ 8,070,754</u>	<u>11,115,796</u>	<u>43,596,000</u>	<u>6,281,517</u>	<u>69,064,067</u>	<u>2,617,655</u>
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	\$ 2,036,060	3,557,867	-	187,329	5,781,256	305,118
Capital Asset Trade-Ins	-	-	-	16,763	16,763	1,888
Change in Fair Value of Investments	-	-	-	23,235	23,235	(11,036)

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2002

	Police And Fire Pension Trust Fund	Agency Funds	Totals
	<hr/>	<hr/>	<hr/>
ASSETS			
Cash and Cash Equivalents	\$ 1,916,919	4,237,573	6,154,492
Investments	129,839,911	-	129,839,911
Receivables:			
Contributions	159,201	-	159,201
Accrued Interest	411,167	16	411,183
Other	-	155,473	155,473
Due from Other Governments	259	-	259
Contractor Retainage	-	1,162,558	1,162,558
	<hr/>	<hr/>	<hr/>
Total Assets	132,327,457	5,555,620	137,883,077
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Warrants Payable	-	2,920,905	2,920,905
Accounts Payable	1,386	100,384	101,770
Accrued Liabilities	3,386	-	3,386
Accrued Compensated Absences	4,232	-	4,232
Due to Other Governments	-	556,263	556,263
Due to Contractors	-	1,791,905	1,791,905
Due to Joint Venture	-	173,791	173,791
Due to Bondholders	-	12,372	12,372
	<hr/>	<hr/>	<hr/>
Total Liabilities	9,004	5,555,620	5,564,624
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Held in Trust for Pension Benefits	\$ 132,318,453	-	132,318,453
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002

	<u>Police And Fire Pension Trust Fund</u>
Additions:	
Contributions:	
Employer	\$ 1,585,319
Employee	<u>2,129,880</u>
Total Contributions	3,715,199
Investment Earnings:	
Net Investment Earnings and Depreciation in Fair Value of Investments	<u>5,007,072</u>
Total Additions	<u>8,722,271</u>
Deductions:	
Benefit Payments	8,285,454
Refunds of Contributions	299,914
Administrative Costs	<u>247,755</u>
Total Deductions	<u>8,833,123</u>
Change in Net Assets	(110,852)
Net Assets Held in Trust for Pension Benefits Beginning of Year	<u>132,429,305</u>
Net Assets Held in Trust for Pension Benefits End of Year	<u>\$ 132,318,453</u>

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Lincoln, Nebraska (City) was incorporated on April 7, 1869. The City operates under a Home Rule Charter and has a Mayor-Council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of 7 members. Three Council members are elected at large and 4 by district on a nonpartisan basis for a term of 4 years. The administration of City government is performed under the direction of the Mayor through administrative departments.

The accompanying financial statements present the government of the City. Based upon the criteria identified in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, none of the City's significant potential component units are required to be included as part of the reporting entity. Regarding related organizations, the City's Mayor appoints and the City Council approves all of the board appointments of the Housing Authority of the City of Lincoln, however, the City has no further accountability for this organization.

FISCAL YEAR-END

All fund types of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2002. December 31st is the fiscal year-end of LES as established by the City Charter, and the last separate audit was as of and for the year ended December 31, 2001. The amounts included in the City's August 31, 2002, financial statements for LES are audited figures as of and for the year ended December 31, 2001.

FINANCIAL REPORTING REQUIREMENTS

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, was issued in June 1999 and adopted by the City effective September 1, 2001. This statement established new financial reporting requirements for state and local governments. GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, were issued in June 2001 and adopted by the City effective September 1, 2001.

The adoption of these statements required the City to make several changes to the presentation of its basic financial statements, which include the following significant items:

- ♦ Management's Discussion and Analysis, which precedes the basic financial statements, has been presented.
- ♦ Government-wide financial statements are presented, prepared using accrual accounting for all of the City's activities.
- ♦ Retained earnings have been reclassified into Invested in Capital Assets, net of related debt, Restricted, and Unrestricted net assets.
- ♦ Expanded disclosures for long-term debt and capital assets have been presented.
- ♦ Cash flow statements have been presented using the direct method.

GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, was issued in March 2000 and adopted by the City effective September 1, 2001. This Interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures, including compensated absences.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Fiduciary activities, whose resources are not available to finance the City's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund finances the day-to-day operation of the basic governmental activities, such as legislative, judicial, administration, police and fire protection, legal services, planning, and parks and recreation.

The Street Construction Fund accounts for the resources accumulated and payments made for the maintenance, construction, and improvement of the streets and highways in the City.

CITY OF LINCOLN, NEBRASKA
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The Community Health Permanent Endowment Fund accounts for the cash proceeds realized by the City from the sale of Lincoln General Hospital together with any interest or other investment income earned. The endowment may be increased by donations, bequests, or appropriations to the fund. Monies in the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln.

The government reports the following major enterprise funds:

The Lincoln Wastewater System Fund accounts for the activities of the government's wastewater utility.

The Lincoln Water System Fund accounts for the activities of the government's water distribution operations.

The Lincoln Electric System Fund accounts for the activities of the government's electric distribution operations.

Additionally, the government reports the following fund types:

Internal Service Funds account for data processing, engineering, risk management, fleet management, telecommunications, and copy services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The Pension Trust Fund accounts for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers and firefighters.

The Agency Funds account for the collection of various taxes, fines, fees and loan programs due to other government entities; good faith money due to contractors upon project completion; funds held to pay outstanding warrants; funds to pay phone system charges; defeased bond proceeds to pay called bonds for which the City Treasurer is trustee; funds for the joint administrative entity known as JAVA, created to coordinate planning and implementation of the Antelope Valley Project; and funds deposited by Gateway Shopping Center in fulfillment of a condition of the use permit for expansion.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the City's Lincoln Wastewater System and Lincoln Water System funds have elected to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, cash held by City Treasurer, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The City may invest "in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made."

Investments are carried at fair value, except for short-term investments which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

In accordance with authorized investment laws, the Pension Trust Fund of the City is allowed to invest in various mortgage-backed securities, such as collateralized mortgage obligations. They are reported in aggregate as mortgage-backed securities in the disclosure of custodial credit risk (see Note 4).

Receivables and Payables

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables generally is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Amounts of governmental fund inventories and prepaid items are offset by a fund balance reserve account to indicate that they do not represent "available spendable resources".

Restricted Assets

Certain proceeds of the enterprise funds revenue bonds, resources set aside for their repayment, as well as funds for subsequent period operations are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Assets included in the Bond Principal and Interest Account and the Bond Reserve Account are restricted for the payment of bond principal and interest. Assets included in the Surplus Account and the Depreciation and Replacement Account are

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

restricted for purposes including improvements, repairs and replacements, acquisition of equipment and the payment of bond principal and interest. Assets included in the Construction Account are restricted for paying the cost of the capital projects.

Certain assets of the Golf enterprise fund are classified as restricted assets to be used for capital improvements.

Certain assets of the Pershing Municipal Auditorium enterprise fund are classified as restricted assets to be used for improvements and to supplement event net losses.

Certain assets of the Community Health Permanent Endowment trust fund are classified as restricted assets to provide for all reimbursable claims pursuant to the terms of the Lincoln General Hospital sale agreement. Additional assets are restricted because their use is restricted by donors for specific purposes.

A recap of restrictions and related balances at August 31, 2002, are as follows:

Fund Account	Golf	Parking Facilities	Pershing Municipal Auditorium	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Community Health Permanent Endowment	Totals
Principal and Interest	\$	209,091			86,786	7,293,000		7,588,877
Reserve	316,500	2,089,568		1,445,958	5,481,969	12,705,000		22,038,995
Surplus		594,702		16,482,763	3,176,917			20,254,382
Depreciation and Replacement	100,000	768,224						868,224
Construction		844,562				143,596,000		144,440,562
Loan Payments				1,073,360				1,073,360
Capital Improvements	119,959		176,263					296,222
Marketing			73,896					73,896
Communications Escrow						116,000		116,000
Claims							754,929	754,929
Donor Specific Purpose							92,483	92,483
Operations	\$				1,500,000			1,500,000
	<u>536,459</u>	<u>4,506,147</u>	<u>250,159</u>	<u>19,002,081</u>	<u>10,245,672</u>	<u>163,710,000</u>	<u>847,412</u>	<u>199,097,930</u>

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed.

Property, plant and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Improvements	5 - 40
Infrastructure	20 - 100
Equipment	2 - 20
Utility Plant	30 - 40

The one exception to this rule is Library media, which uses a composite depreciation method.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Compensated Absences

City employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 30 days.

Employees earn sick leave at the rate of one day per month with total accumulation limits established by the employees' bargaining unit. Upon retirement, an employee is reimbursed for one-fourth or one-half of accumulated sick leave, with maximums depending on the employees' bargaining unit contract. In some cases payment may be placed directly in a medical spending account rather than reimbursing the employee directly. Police union employees who leave the City service in good standing after giving two weeks notice of termination of employment are compensated for one-fourth of accumulated sick leave to the date of separation. LES is covered by a separate personnel plan regarding vacation and sick leave with the liability for these benefits recorded in Accrued Liabilities.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the City will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement. Such accruals are based on current salary rates and include salary related payments directly and incrementally associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, only compensated absences expected to be liquidated with expendable available financial resources are recorded as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

BUDGETARY DATA

The City Council follows these procedures, set out in the City Charter, in establishing the budgetary data reflected in the financial statements:

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

- 1) At least 40 days prior to the end of the budget and fiscal year, the Mayor submits to the City Council a proposed annual budget for the ensuing year. The annual budget is a complete financial plan for the ensuing budget year and consists of an operating budget and a capital budget.
- 2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.
- 3) Not later than 5 days prior to the end of the fiscal year, the budget is legally adopted by resolution of the City Council.
- 4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year.

Appropriation transfers between departments or agencies may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except that it may authorize emergency appropriations in the event of an emergency threatening serious loss of life, health, or property in the community.

- 5) Budgets for all funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP). Since encumbrances are included in the City's budget accounting, year-end encumbrances are reappropriated to the next year in the budget process. Budget basis expenditures are presented on a cash basis.

Amendments to the adopted budget were made this year and result from prior fiscal year encumbrances identified subsequent to budget adoption, appropriation of unanticipated revenues to certain funds as provided in the budget resolution, and appropriation revision between or among departments as provided for under the City Charter.

- 6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.
- 7) Operating appropriations lapse at the end of the fiscal year except for capital improvement appropriations and year-end encumbrances against operating budgets. Capital improvement appropriations are continuing appropriations through completion of the project.
- 8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for certain special revenue (Advance Acquisition, Tax Sales Revolving, Special Assessment, Property Tax Refunds, Parks and Recreation Special Projects, and Commission on Aging Gift Trust), debt service (Special Assessment), and agency funds. In addition, capital project funds are not budgeted on an annual basis, but rather a project basis. As a result, budget to actual comparisons have not been presented for these funds.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.” The details of the \$76,775,889 difference are as follows:

Bonds Payable	\$ 68,076,944
Less deferred charge for issuance costs	(230,786)
Less issuance discounts	(3,066)
Plus issuance premiums	143,659
Capital Leases Payable	1,818,300
Accrued Interest Payable	690,966
Claims Payable	24,230
Compensated Absences	<u>6,255,642</u>
Net difference	<u>\$ 76,775,889</u>

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$38,162,734 difference are as follows:

Capital outlay	\$ 52,095,029
Depreciation expense	<u>(13,932,295)</u>
Net difference	<u>\$ 38,162,734</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(13,519,180) difference are as follows:

Debt issued or incurred:	
Capital lease financing	\$ (84,775)
Issuance of tax-supported Antelope Valley project bonds	(11,080,000)
Issuance of general obligation storm sewer bonds	(7,500,000)
Deferred charge for issuance costs	230,786
Issuance discounts	3,066
Issuance premiums	(143,659)
Principal repayments	<u>5,055,402</u>
Net difference	<u>\$ (13,519,180)</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$(741,069) difference are as follows:

Loss on disposal of capital assets	\$ (47,756)
Accrued interest	(243,083)
Claims	10,270
Compensated absences	<u>(460,500)</u>
Net difference	<u>\$ (741,069)</u>

(3) PRIOR PERIOD ADJUSTMENTS

Net Assets of business-type activities on the statement of activities and in the fund financial statements have been reclassified as of the beginning of the year. The distinction between contributed capital and retained earnings is no longer operative under the new reporting model as directed by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

Beginning balance restatements have also been recorded in the governmental funds due to various fund reclassifications as implemented under GASB Statement No. 34 – and the effects related to the required change in measurement focus and basis of accounting.

In prior periods the City has recorded a current liability for compensated absences based on an estimated amount to be used in the following year. However, GASB Interpretation No. 6 states that the accumulation of financial resources in a governmental fund for the eventual payment of unmatured liabilities does not constitute an outflow of current financial resources. Therefore, the reclassification of compensated absences in the governmental funds has been recorded as an adjustment restating the beginning fund balance of those governmental funds. Adjustments are as follows:

General Fund	Street Construction Fund	Nonmajor Special Revenue Funds	Total
<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ 2,843,557	96,924	1,250,546	4,191,027

(4) DEPOSITS AND INVESTMENTS

DEPOSITS

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to give bond or to pledge government securities (types of which are specifically identified in the Statutes) to the City Treasurer in the amount of the City's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit which is insured by the Federal Deposit Insurance Corporation (FDIC).

For purposes of classifying categories of custodial risk, the bank balances of the City's deposits as of August 31, 2002, are either entirely insured or collateralized with securities held by the City's agent in the City's name.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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INVESTMENTS

For reporting purposes, the carrying amount of securities is classified into the following three categories of custodial risk:

- 1) Insured or registered, or securities held by the City or its agent in the City's name.
- 2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- 3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Pension Fund

At August 31, 2002, the Pension Trust fund had investments as follows:

	<u>Category</u> <u>3</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Mortgage-backed Securities	\$ 57,855,252	57,855,252	57,855,252
Government Securities	27,087,905	27,087,905	27,087,905
Government Agencies	2,080,000	2,080,000	2,080,000
Repurchase Agreements	<u>675,000</u>	<u>675,000</u>	<u>675,000</u>
	<u>\$ 87,698,157</u>	87,698,157	87,698,157
Open-end Mutual Funds		<u>42,141,754</u>	<u>42,141,754</u>
		<u>\$ 129,839,911</u>	<u>129,839,911</u>

Lincoln Electric System (LES)

At December 31, 2001, LES had investments as follows:

	<u>Category 2</u>	
	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Government Securities	\$ 4,385,000	4,496,000
Government Money Markets	<u>183,630,000</u>	<u>183,630,000</u>
	<u>\$ 188,015,000</u>	<u>188,126,000</u>

Lincoln Wastewater System

At August 31, 2002, Lincoln Wastewater System had investments as shown below:

	<u>Category 3</u>	
	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Government Securities	\$ <u>16,568,939</u>	<u>16,780,662</u>

Lincoln Water System

At August 31, 2002, Lincoln Water System had investments as follows:

	<u>Category</u>		<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
	<u>2</u>	<u>3</u>		
Government Securities	\$ -	2,494,214	2,494,214	2,495,400
Repurchase Agreements	<u>5,477,216</u>	<u>-</u>	<u>5,477,216</u>	<u>5,477,216</u>
	<u>\$ 5,477,216</u>	<u>2,494,214</u>	<u>7,971,430</u>	<u>7,972,616</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Community Health Permanent Endowment

At August 31, 2002, Community Health Permanent Endowment had investments as follows:

	<u>Category</u> <u>2</u>	Reported Amount	Fair Value
Government Securities	\$ 1,210,899	1,210,899	1,210,899
Government Agencies	12,586,993	12,586,993	12,586,993
Corporate Bonds	28,956,337	28,956,337	28,956,337
Foreign Obligations	<u>57,195</u>	<u>57,195</u>	<u>57,195</u>
	<u>\$ 42,811,424</u>	42,811,424	42,811,424
Securities Lending Short-term Investment Pool		<u>7,653,943</u>	<u>7,653,943</u>
		<u>\$50,465,367</u>	<u>50,465,367</u>

All Other City Funds

Investments of all other City funds do not vary significantly in either type or risk. These investments at August 31, 2002, were as follows:

	<u>Category</u> <u>2</u>	<u>3</u>	Reported Amount	Fair Value
Government Agencies	\$ 2,031,706	80,876,384	82,908,090	82,926,656
Government Money Markets	<u>206,989</u>	<u>26,146,841</u>	<u>26,353,830</u>	<u>26,353,830</u>
	<u>\$ 2,238,695</u>	<u>107,023,225</u>	109,261,920	109,280,486
Interfund Investments			1,136,130	1,136,130
Inter-government Loan			<u>996,000</u>	<u>996,000</u>
			<u>\$111,394,050</u>	<u>111,412,616</u>

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2002:

	<u>Totals</u>		
Investments	\$ 504,254,697		
Certificates of Deposit	55,242,000		
Bank Accounts	4,135,412		
Cash on Hand	<u>129,100</u>		
	<u>\$ 563,761,209</u>		
	<u>Government-wide</u>	<u>Fiduciary Funds</u>	
	Statement of	Statement of	
	Net Assets	Net Assets	Totals
Cash and Cash Equivalents	\$ 85,015,463	6,154,492	91,169,955
Investments	136,190,571	129,839,911	266,030,482
Invested Securities Lending	7,653,943	-	7,653,943
Restricted Assets:			
Cash and Cash Equivalents	7,896,461	-	7,896,461
Investments	<u>191,010,368</u>	<u>-</u>	<u>191,010,368</u>
	<u>\$ 427,766,806</u>	<u>135,994,403</u>	<u>563,761,209</u>

There were no investments that resulted in significantly greater custodial risk held during the fiscal year ended August 31, 2002, than those held at year end.

CITY OF LINCOLN, NEBRASKA
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The City's Pension Trust Fund invests in collateralized mortgage obligations to maximize investment earnings. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The policies of the Community Health Endowment (CHE) Board of Trustees authorize the CHE fund to participate in securities lending transactions, where securities are loaned to brokers and broker dealers with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk. At year-end, CHE has no credit risk exposure to borrowers because the amounts CHE owes the borrowers exceed the amounts the borrowers owe CHE. The cash can not be spent by CHE unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either CHE or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had an average duration of 44 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Loss indemnification is provided to the Fund by the contract with the custodian.

(5) RECEIVABLES

Receivables at August 31, 2002, consist of the following (in thousands):

Fund	Taxes	Accounts	Contributions	Special Assessment		Accrued	Gross	Allowance For	Net
				Current	Deferred	Interest	Receivables	Uncollectibles	
General	\$ 2,356	1,960	-	-	-	84	4,400	-	4,400
Street Construction	-	276	-	-	-	112	388	-	388
Community Health									
Endowment	-	-	-	-	-	3	3	-	3
Wastewater System	-	2,772	-	-	-	190	2,962	-	2,962
Water System	-	5,589	-	-	-	32	5,621	-	5,621
Electric System	-	15,530	-	-	-	408	15,938	-	15,938
Nonmajor -									
Special Revenue	1,013	295	-	-	-	93	1,401	-	1,401
Debt Service	776	-	-	555	3,669	78	5,078	317	4,761
Capital Projects	-	-	-	-	-	127	127	-	127
Enterprise	-	2,971	-	-	-	79	3,050	964	2,086
Internal Service	-	401	-	-	-	112	513	-	513
Fiduciary	-	155	159	-	-	411	725	-	725
	<u>\$ 4,145</u>	<u>29,949</u>	<u>159</u>	<u>555</u>	<u>3,669</u>	<u>1,729</u>	<u>40,206</u>	<u>1,281</u>	<u>38,925</u>

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent Special Assessment Receivables at August 31, 2002, were \$273,036.

No other receivables are expected to be uncollected within one year.

CITY OF LINCOLN, NEBRASKA
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(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of \$25,118,687 includes the following significant items:

<u>Fund/Fund Type</u>	<u>Amount</u>	<u>Service</u>
General/Governmental	\$8,590,994	State of Nebraska, July/August Sales and Use Tax
	339,627	August Motor Vehicle Taxes Collected by Lancaster County
	154,224	Federal Government, Cost Reimbursements
	75,069	Lancaster County, Cost Reimbursements
Street Construction/Governmental	2,629,116	State of Nebraska, July/August Highway User Fees
	9,085,787	Federal Government, Cost Reimbursements
	1,150,127	State of Nebraska, Project Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	107,918	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	366,526	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	91,108	August Motor Vehicle Taxes Collected by Lancaster County
StarTran/Special Revenue	47,985	Federal Government, Subsidies
Federal Grants/Special Revenue	1,235,946	Federal Government, Cost Reimbursements
Antelope Valley/Debt Service	166,167	State of Nebraska, July/August Development Fund disbursements
Vehicle Tax/Capital Projects	619,559	August Motor Vehicle Taxes Collected by Lancaster County
Information Services/Internal Service	189,274	Lancaster County Billings
Engineering Revolving/Internal Service	58,822	State of Nebraska, Project Cost Reimbursements
Copy Services/Internal Service	19,346	Lancaster County Billing

CITY OF LINCOLN, NEBRASKA
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(7) CAPITAL ASSETS

Capital Asset activity for the year ended August 31, 2002, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 30,992,503	6,852,515	34,177	37,810,841
Construction in Progress	50,397,524	19,345,482	10,180,318	59,562,688
Total Capital Assets, not being Depreciated	81,390,027	26,197,997	10,214,495	97,373,529
Capital Assets, being Depreciated:				
Buildings	45,732,176	16,051,632	124,860	61,658,948
Improvements Other Than Buildings	41,050,510	5,551,052	69,169	46,532,393
Machinery and Equipment	53,571,943	12,411,969	3,368,553	62,615,359
Infrastructure	240,400,880	13,207,193	-	253,608,073
Total Capital Assets, being Depreciated	380,755,509	47,221,846	3,562,582	424,414,773
Less Accumulated Depreciation for:				
Buildings	18,347,934	1,413,346	119,393	19,641,887
Improvements Other Than Buildings	13,285,498	1,348,803	69,169	14,565,132
Machinery and Equipment	30,546,119	5,267,648	3,156,631	32,657,136
Infrastructure	74,202,772	7,940,909	-	82,143,681
Total Accumulated Depreciation	136,382,323	15,970,706	3,345,193	149,007,836
Total Capital Assets, being Depreciated, Net	244,373,186	31,251,140	217,389	275,406,937
Governmental Activities Capital Assets, Net	\$ 325,763,213	57,449,137	10,431,884	372,780,466
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 13,592,178	595,385	2,310	14,185,253
Construction in Progress	84,564,371	65,154,478	64,046,920	85,671,929
Total Capital Assets, not being Depreciated	98,156,549	65,749,863	64,049,230	99,857,182
Capital Assets, being Depreciated:				
Buildings	166,473,802	6,079,718	7,144	172,546,376
Improvements Other Than Buildings	289,738,150	16,209,344	560,886	305,386,608
Machinery and Equipment	22,958,410	2,192,415	1,242,060	23,908,765
Utility Plant	579,185,000	51,055,000	1,924,000	628,316,000
Total Capital Assets, being Depreciated	1,058,355,362	75,536,477	3,734,090	1,130,157,749
Less Accumulated Depreciation for:				
Buildings	45,824,420	3,662,392	7,144	49,479,668
Improvements Other Than Buildings	73,898,251	6,840,893	553,605	80,185,539
Machinery and Equipment	12,464,524	1,742,880	1,030,440	13,176,964
Utility Plant	215,550,000	19,138,000	2,619,000	232,069,000
Total Accumulated Depreciation	347,737,195	31,384,165	4,210,189	374,911,171
Total Capital Assets, being Depreciated, Net	710,618,167	44,152,312	(476,099)	755,246,578
Business-type Activities Capital Assets, Net	\$ 808,774,716	109,902,175	63,573,131	855,103,760

CITY OF LINCOLN, NEBRASKA
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Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 747,653
Public Safety	1,312,001
Streets and Highways, including Infrastructure	7,650,187
Culture and Recreation	2,964,570
Economic Opportunity	49,281
Health and Welfare	132,448
Mass Transit	1,076,155
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	<u>2,038,411</u>
Total Depreciation Expense - Governmental	<u>\$ 15,970,706</u>
Business-type Activities:	
Parking Lots	\$ 21,995
Golf	469,001
Parking Facilities	896,419
Pershing Municipal Auditorium	153,451
Sanitary Landfill	1,370,918
Emergency Medical Services	176,114
Wastewater System	4,027,563
Water System	5,130,704
Lincoln Electric System	<u>19,138,000</u>
Total Depreciation Expense - Business-type	<u>\$ 31,384,165</u>

Capital asset activity of each major fund was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	\$ 2,138,362	-	-	2,138,362
Construction in Progress	<u>7,967,906</u>	<u>7,157,847</u>	<u>948,160</u>	<u>14,177,593</u>
Total Capital Assets, not being Depreciated	<u>10,106,268</u>	<u>7,157,847</u>	<u>948,160</u>	<u>16,315,955</u>
Capital Assets, being Depreciated:				
Buildings	36,843,157	105,128	-	36,948,285
Improvements Other Than Buildings	111,275,542	2,855,877	-	114,131,419
Machinery and Equipment	<u>7,565,989</u>	<u>638,028</u>	<u>215,732</u>	<u>7,988,285</u>
Total Capital Assets, being Depreciated	<u>155,684,688</u>	<u>3,599,033</u>	<u>215,732</u>	<u>159,067,989</u>
Less Accumulated Depreciation for:				
Buildings	14,827,383	993,355	-	15,820,738
Improvements Other Than Buildings	31,011,581	2,601,707	-	33,613,288
Machinery and Equipment	<u>4,266,666</u>	<u>432,501</u>	<u>211,145</u>	<u>4,488,022</u>
Total Accumulated Depreciation	<u>50,105,630</u>	<u>4,027,563</u>	<u>211,145</u>	<u>53,922,048</u>
Total Capital Assets, being Depreciated, Net	<u>105,579,058</u>	<u>(428,530)</u>	<u>4,587</u>	<u>105,145,941</u>
Wastewater System Capital Assets, Net	<u>\$ 115,685,326</u>	<u>6,729,317</u>	<u>952,747</u>	<u>121,461,896</u>

CITY OF LINCOLN, NEBRASKA
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	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 4,386,218	549	-	4,386,767
Construction in Progress	5,620,139	15,500,705	8,494,633	12,626,211
Total Capital Assets, not being Depreciated	10,006,357	15,501,254	8,494,633	17,012,978
Capital Assets, being Depreciated:				
Buildings	87,050,277	226,517	-	87,276,794
Improvements Other Than Buildings	157,101,487	12,825,676	560,886	169,366,277
Machinery and Equipment	6,471,617	425,193	154,791	6,742,019
Total Capital Assets, being Depreciated	250,623,381	13,477,386	715,677	263,385,090
Less Accumulated Depreciation for:				
Buildings	18,708,349	1,572,140	-	20,280,489
Improvements Other Than Buildings	36,815,932	3,213,661	553,605	39,475,988
Machinery and Equipment	4,174,291	344,903	114,005	4,405,189
Total Accumulated Depreciation	59,698,572	5,130,704	667,610	64,161,666
Total Capital Assets, being Depreciated, Net	190,924,809	8,346,682	48,067	199,223,424
Water System Capital Assets, Net	\$ 200,931,166	23,847,936	8,542,700	216,236,402
	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 70,500,000	42,196,000	54,129,000	58,567,000
Capital Assets, being Depreciated:				
Utility Plant	579,185,000	51,055,000	1,924,000	628,316,000
Less Accumulated Depreciation	215,550,000	19,138,000	2,619,000	232,069,000
Total Capital Assets, being Depreciated, Net	363,635,000	31,917,000	(695,000)	396,247,000
Electric System Capital Assets, Net	\$ 434,135,000	74,113,000	53,434,000	454,814,000

During 2002, Lincoln Wastewater System incurred \$306,508 of interest cost which was capitalized into construction in progress. Lincoln Water System incurred \$2,174,802 of interest cost, of which \$607,096 was capitalized into construction in progress.

Lincoln Electric System utility plant includes an allowance for funds used during construction of projects costing in excess of \$2 million. The allowance for funds used during construction consists of interest costs on proceeds of commercial paper notes/bonds, less net earnings on proceeds temporarily invested. The weighted-average rate for 2001 was 3.9%.

The Parking Facilities fund incurred interest expense of \$936,436, of which \$103,840 was capitalized into buildings.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

(8) PROPERTY TAXES

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was established by using the September 1, 1966, City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the City tax limit for the previous year plus 7% thereof. In addition, the City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2001 tax levy, for the 2001-2002 fiscal year, was \$44,637,707 below the legal limit, with a tax rate per \$100 valuation of 0.31452. The assessed value upon which the 2001 levy was based was \$10,724,685,837.

The tax levies for all political subdivisions in Lancaster County are certified by the County Board on or before October 15th. Real estate taxes are due on December 31st and attach as an enforceable lien on property on January 1st following the levy date and become delinquent in two equal installments on April 1st and August 1st. Personal property taxes are due December 31st and become delinquent on April 1st and August 1st following the levy date. Delinquent taxes bear 14% interest.

Property taxes levied for 2001-2002 are recorded as revenue when expected to be collected within 60 days after August 31, 2002. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

The City-owned electric utility is required by City Charter to make payments in lieu of taxes, aggregating 5% of its gross retail operating revenues derived from within the City limits of incorporated cities and towns served.

(9) LONG-TERM DEBT

The City issues general obligation, special assessment, and revenue bonds to finance the acquisition and construction of major capital assets. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are repaid from amounts levied against affected property owners, but in the unlikely event collections are not sufficient to make debt payments, the responsibility rests with the City to meet that obligation. For revenue bonds the government pledges income derived from the acquired or constructed assets to pay the debt service.

Net assets of \$6,526,669, \$2,613,313, \$3,657,506, and \$4,699,699 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land	\$ 42,000	\$ 210,000
Buildings	2,185,750	-
Machinery and Equipment	206,597	1,748,261
Less: Accumulated Depreciation, (where applicable)	<u>(440,237)</u>	<u>(228,999)</u>
Total	<u>\$ 1,994,110</u>	<u>\$ 1,729,262</u>

CITY OF LINCOLN, NEBRASKA
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Under the City's Home Rule Charter, there is no legal debt margin. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, minimum amounts to be maintained in various bond reserve funds, and minimum revenue bond coverages. In the opinion of management, the City is in compliance with all such significant limitations and restrictions.

On August 15, 2001, LES issued \$34.725 million in taxable commercial paper notes with an interest rate of 3.575% to advance refund \$35.510 million in outstanding 1992 Series bonds with an average interest rate of 5.721%. LES advance refunded the 1992 bonds to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an accounting loss of approximately \$6 million, which is deferred and amortized through 2016, the period over which LES expects to recover the costs. The net proceeds of \$34.412 million plus an additional \$2.44 million of the 1992 series reserve fund were used to purchase U.S. government securities and money market funds and were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 bonds. As a result, the 1992 bonds have been removed from the financial statements.

In prior years, the City defeased certain bonds by placing the proceeds of the refunding bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On August 31, 2002, the following bonds outstanding are considered defeased:

Revenue Bonds:		
08/15/80	Lincoln Wastewater	\$ 5,000
Various	Lincoln Electric	76,000,000
01/15/93	Hospital Revenue	<u>19,895,000</u>
Total Defeased Bonds Outstanding		<u>\$ 95,900,000</u>

LES issued short-term taxable commercial paper notes dated August 15, 2001, as noted above, to refund the 1992 Series bonds. The notes matured in June 2002, and had an interest rate of 2.145% at December 31, 2001.

On November 27, 2001, the City issued \$3,165,000 in Golf Course Revenue Refunding Bonds with an average interest rate of 3.66% to refund \$3,310,000 in outstanding 1991 Series bonds with an average interest rate of 6.87%. The refunding resulted in a cash flow differential of \$600,533 and an economic gain of \$424,500.

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2001, LES had \$75 million of commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2001, was 3 percent. The annual requirement to pay interest on this outstanding debt is approximately \$2,250,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

CITY OF LINCOLN, NEBRASKA
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Long-term bonded debt and loans of the City are comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Average Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
5,193	09/15/89	Sanitary Improvement District #7	5.00000	Ser. '91 to '10	1990	Annually	\$ 2,032
4,570	06/01/93	Various Purpose Refunding	4.47364	Ser. '94 to '06	1998	Semiannually	1,305
10,740	07/01/93	Downtown Redev. Refunding	4.26203	Ser. '93 to '02	1998	"	1,265
4,000	04/15/95	Storm Sewer	5.45795	Ser. '95 to '15	2002	"	2,600
6,500	08/01/95	Various Purpose	5.18442	Ser. '96 to '15	2002	"	4,550
8,250	08/15/97	Storm Sewer and Drainage	4.92735	Ser. '99 to '17	2005	"	7,380
14,435	03/01/99	Various Purpose Series A	4.46209	Ser. '00 to '14	2009	"	12,195
7,365	03/01/99	Various Purpose Series A	4.46209	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.81227	Ser. '99 to '11	2007	"	5,965
7,500	05/29/02	Storm Sewer and Drainage	4.71847	Ser. '04 to '20	2010	"	7,500
Total General Bonds							\$ 52,157
Municipal Infrastructure Redevelopment Bonds:							
3200	06/13/00	Municipal Infrastructure Redev.	5.04700	Ser. '01 to '09	2005	Semiannually	\$ 2,685
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	5.87280	Ser. '93 to '06	1997	Semiannually	\$ 445
105	11/15/92	Tax Allocation Bonds	6.35000	Term '93 to '06	1997	"	55
90	11/15/92	Tax Allocation Bonds	6.30000	Term '93 to '05	1997	"	45
303	10/18/94	Tax Allocation Bonds	8.00000	Term '95 to '05	Anytime	"	129
232	04/21/00	Tax Allocation Bonds	5.49750	Ser. '01 to '10	2000	"	196
1,200	05/01/01	Tax Allocation & Refunding Bonds	3.63774	Ser. '01 to '04	2003	"	975
Total Tax Allocation Bonds							\$ 1,845
Total General, MIRF, And Tax Allocation Bonds							\$ 56,687
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	6.47384	Ser. '90 to '04	1996	Semiannually	\$ 310
TOTAL GENERAL OBLIGATION BONDS							\$ 56,997
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	4.49907	Ser. '02 to '16	2012	Semiannually	\$ 11,080
Revenue Bonds And Loans:							
60,000	08/15/93	Water Revenue	5.13966	Ser. '94 to '12	2003	Semiannually	\$ 37,810
9,018	02/05/91	Wastewater Revenue Project Loan	5.00000	1992 to 2007	1992	Semiannually	\$ 5,593
6,815	09/08/99	Parking Revenue Series A	5.18256	Ser. '00 to '14	2001	Semiannually	\$ 5,920
6,695	09/08/99	Parking Revenue Series A	5.18256	Term 2014	2001	"	6,695
2,125	09/08/99	Parking Revenue Series B	6.25000	Ser. '00 to '04	2001	"	940
6,000	12/05/02	Parking Revenue	4.78376	Ser. '02 to '21	2011	"	5,715
Total Parking Bonds							\$ 19,270
3,165	10/23/01	Golf Course Revenue Refunding	3.66003	Ser. '02 to '11	2008	Semiannually	\$ 2,860
184,650	07/01/93	Electric Refunding '93 Series A	4.68942	Ser. '94 to '11	2004	Semiannually	128,055
62,005	07/01/93	Electric Refunding '93 Series A	5.25000	Term 2015	2012	"	62,005
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.65000	Ser. '98 to '18	2008	"	39,825
141,150	08/15/01	Electric Revenue Bonds '01	5.07478	Ser. '06 to '20	2011	"	141,150
Total Electric Bonds							\$ 371,035
TOTAL REVENUE BONDS AND LOANS							\$ 436,568

CITY OF LINCOLN, NEBRASKA
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Annual requirements to pay principal and interest to maturity on outstanding debt follows (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities							
	General Obligation Bonds		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 5,060	2,523	105	18	270	446	148	86
2004	3,850	2,333	105	10	555	436	158	80
2005	3,936	2,168	100	3	565	423	142	73
2006	3,770	2,004	-	-	580	409	138	67
2007	3,519	1,840	-	-	595	391	102	61
2008 - 2012	16,222	6,866	-	-	3,305	1,618	594	220
2013 - 2017	13,395	3,486	-	-	5,210	773	347	84
2018 - 2022	6,345	718	-	-	-	-	189	12
2023 - 2027	590	15	-	-	-	-	-	-
	<u>\$ 56,687</u>	<u>21,953</u>	<u>310</u>	<u>31</u>	<u>11,080</u>	<u>4,496</u>	<u>1,818</u>	<u>683</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds And Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2003	\$ 15,442	22,087	290	64
2004	18,123	21,367	300	53
2005	19,038	20,507	310	40
2006	20,922	19,595	320	28
2007	20,828	18,584	207	14
2008 - 2012	115,200	76,604	212	5
2013 - 2017	137,835	44,915	-	-
2018 - 2022	89,180	9,224	-	-
	<u>\$ 436,568</u>	<u>232,883</u>	<u>1,639</u>	<u>204</u>

Major fund annual requirements to pay principal and interest to maturity on outstanding debt follows (in thousands of dollars):

Fiscal Year Ended August 31	Major Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 1,032	268	3,010	1,972	10,035	19,106
2004	1,083	214	3,155	1,825	12,450	18,327
2005	1,127	160	3,305	1,667	13,170	17,746
2006	1,177	103	3,465	1,499	13,790	17,118
2007	1,174	44	3,640	1,318	15,460	16,450
2008 - 2012	-	-	21,235	3,491	85,390	70,276
2013 - 2017	-	-	-	-	110,830	45,797
2018 - 2022	-	-	-	-	109,910	14,273
	<u>\$ 5,593</u>	<u>789</u>	<u>37,810</u>	<u>11,772</u>	<u>371,035</u>	<u>219,093</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Long-term liability activity for the year ended August 31, 2002, was as follows:

	09/01/01 Beginning Balance	Additions	Reductions	08/31/02 Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Obligation Bonds	\$ 48,794	7,500	(4,137)	52,157	4,178
Municipal Infrastructure					
Redevelopment Bonds	2,960	-	(275)	2,685	290
Tax Allocation Bonds	2,244	-	(399)	1,845	593
Special Assessment Debt with					
Government Commitment	420	-	(110)	310	105
Tax-Supported Antelope Valley					
Project Bonds	-	11,080	-	11,080	270
Capital Leases	1,868	85	(135)	1,818	147
Gross Bonds and Leases Payable	56,286	18,665	(5,056)	69,895	5,583
Deferred Amounts:					
For Issuance Premiums	-	144	-	144	-
For Issuance Discounts	-	(3)	-	(3)	-
Net Bonds and Leases Payable	56,286	18,806	(5,056)	70,036	5,583
Other Liabilities:					
Compensated Absences	6,359	5,021	(4,492)	6,888	4,812
Claims and Judgements	4,762	2,449	(1,704)	5,507	2,692
Governmental Activity Long-Term Liabilities	\$ 67,407	26,276	(11,252)	82,431	13,087
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Water Revenue Bonds	\$ 40,690	-	(2,880)	37,810	3,010
Wastewater Revenue Project Loan	6,585	-	(992)	5,593	1,032
Parking Revenue Bonds	14,385	6,000	(1,115)	19,270	1,085
Golf Course Revenue Bonds	3,310	3,165	(3,615)	2,860	280
Electric System Bonds	276,885	141,150	(47,000)	371,035	10,035
Commercial Paper Notes	65,000	10,000	-	75,000	-
Capital Leases	1,326	587	(274)	1,639	290
Gross Bonds, Notes and Leases Payable	408,181	160,902	(55,876)	513,207	15,732
Deferred Amounts:					
For Issuance Premiums	139	3,160	(84)	3,215	-
For Issuance Discounts	(22,988)	-	5,146	(17,842)	-
For Refunding	-	(50)	5	(45)	-
Net Bonds, Notes and Leases Payable	385,332	164,012	(50,809)	498,535	15,732
Other Liabilities:					
Compensated Absences	807	702	(584)	925	660
Business-Type Activity Long-Term Liabilities	\$ 386,139	164,714	(51,393)	499,460	16,392

Internal Service funds predominantly serve the governmental funds, therefore, their long-term liabilities are included with the governmental activities above. Compensated absences are liquidated in both the governmental and business-type funds as applicable. The claims and judgements liability will generally be liquidated through the City's Insurance Revolving internal service fund, which will finance the payment of those claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Long-term liability activity for the major funds for the year ended August 31, 2002, was as follows:

	09/01/01 Beginning Balance	Additions	Reductions	08/31/02 Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Loans Payable and Other Liabilities:					
Wastewater Revenue Project Loan	\$ 6,585	-	(992)	5,593	1,032
Compensated Absences	291	224	(213)	302	212
Total Long-Term Liabilities	<u>\$ 6,876</u>	<u>224</u>	<u>(1,205)</u>	<u>5,895</u>	<u>1,244</u>
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	\$ 40,690	-	(2,880)	37,810	3,010
Deferred For Issuance Discounts	(275)	-	25	(250)	-
Net Bonds Payable	<u>40,415</u>	<u>-</u>	<u>(2,855)</u>	<u>37,560</u>	<u>3,010</u>
Other Liabilities:					
Compensated Absences	361	270	(236)	395	242
Total Long-Term Liabilities	<u>\$ 40,776</u>	<u>270</u>	<u>(3,091)</u>	<u>37,955</u>	<u>3,252</u>
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	\$ 276,885	141,150	(47,000)	371,035	10,035
Commercial Paper Notes	65,000	10,000	-	75,000	-
Deferred For Issuance Premiums	139	3,160	(84)	3,215	-
Deferred For Issuance Discounts	(22,713)	-	5,121	(17,592)	-
Total Long-Term Liabilities	<u>\$ 319,311</u>	<u>154,310</u>	<u>(41,963)</u>	<u>431,658</u>	<u>10,035</u>

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of management, the carrying value of financial instruments, including commercial paper notes, of the City's utility proprietary funds (Lincoln Wastewater, Lincoln Water, and Lincoln Electric Systems) is presented in the City's financial statements at values which approximated fair value at August 31, 2002, (December 31, 2001 for Lincoln Electric System), with the exception of long-term debt for which the estimated fair value is \$5,500,000, \$35,200,000 and \$377,000,000, respectively.

(11) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Parks and Recreation and Public Works/Utilities departments. The Golf division of the Parks and Recreation department operates the City's golf courses and is accounted for in the Golf Fund. The Parking Facilities division of the Public Works/Utilities department operates the City's downtown parking garages and is accounted for in the Parking Facilities Fund. Summary financial information as of and for the year ended August 31, 2002, for these two divisions is presented as follows:

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

	<u>Golf</u>	<u>Parking Facilities</u>
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current Assets	\$ 617,595	942,252
Restricted Assets	536,459	4,506,147
Deferred Charges	69,488	563,621
Capital Assets	<u>8,087,044</u>	<u>37,285,438</u>
Total Assets	<u>9,310,586</u>	<u>43,297,458</u>
Liabilities:		
Current Liabilities	403,990	137,953
Due to Other Funds	9,744	1,602
Current Liabilities Payable from Restricted Assets	301,048	1,701,580
Noncurrent Liabilities	<u>2,909,128</u>	<u>18,185,000</u>
Total Liabilities	<u>3,623,910</u>	<u>20,026,135</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	4,864,405	18,579,059
Restricted	515,411	3,889,567
Unrestricted	<u>306,860</u>	<u>802,697</u>
Total Net Assets	<u>\$ 5,686,676</u>	<u>23,271,323</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating Revenues	\$ 2,637,361	4,347,985
Depreciation Expense	(469,001)	(896,419)
Other Operating Expenses	<u>(2,141,707)</u>	<u>(1,964,389)</u>
Operating Income	26,653	1,487,177
Nonoperating Revenues (Expenses):		
Investment Earnings	35,717	200,561
Gain/Loss on Disposal of Assets	(2,310)	-
Interest Expense and Fiscal Charges	(172,775)	(865,830)
Capital Contributions	<u>145,230</u>	<u>-</u>
Change in Net Assets	32,515	821,908
Beginning Net Assets	<u>5,654,161</u>	<u>22,449,415</u>
Ending Net Assets	<u>\$ 5,686,676</u>	<u>23,271,323</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activities	\$ 562,739	2,837,208
Capital and Related Financing Activities	(1,424,191)	(2,140,712)
Investing Activities	<u>936,508</u>	<u>(1,962,448)</u>
Net Increase (Decrease) in Cash	75,056	(1,265,952)
Beginning Balance	<u>806,982</u>	<u>3,905,228</u>
Ending Balance	<u>\$ 882,038</u>	<u>2,639,276</u>

(12) DEFICIT NET ASSETS

The following fund had a net asset deficit as of August 31, 2002, which will be eliminated through the recording of future ambulance service fees, net of expenses:

Emergency Medical Services Enterprise Fund \$(59,171)

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

(13) EMPLOYEES' RETIREMENT PLANS

The employees of the City are covered by several retirement plans. The Police and Fire Department Plan (PFDP) is administered by the City and is included in the Fiduciary Fund type. PFDP recognizes plan member contributions in the period in which they are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All other plans are administered by outside trustees and are not included in the City's combined financial statements.

POLICE AND FIRE PENSION

Plan Description - PFDP is a single-employer defined benefit pension plan administered by the City of Lincoln. PFDP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries in accordance with the plan document. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions to the City Council. The City does not issue a separate report that includes financial statements and required supplementary information for PFDP.

The City has added a new program, Deferred Retirement Option Plan (DROP), for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member's monthly pension benefit is deposited into the member's DROP account. At the end of five years, or anytime before five years, the member must "retire-in-fact". Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of service or pension enhancements. When a member retires-in-fact, their monthly pension benefit will be paid directly to them and the member will have access to the funds in their DROP account.

Membership of the pension plan consisted of the following at August 31, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	305
Terminated plan members entitled to but not yet receiving benefits	36
Active plan members (non-DROP)	536
DROP members	47
Total	<u>924</u>
Number of participating employers	<u>1</u>

Funding Policy - The contribution requirements of plan members and the City are established by City Ordinance #15728 dated September 24, 1990, and may be amended by the City Council. Plan members are required to contribute between 7% and 8% of their annual covered salary based on an election made by the employee. The City is required to contribute at an actuarially determined rate; the rate for fiscal year 2002 was 6.93% of annual covered payroll. Actual contributions by the City were 5.96% of annual covered payroll as the City has chosen to accelerate the period over which the funding credit is being amortized. Administrative costs of PFDP are financed through investment earnings.

The annual required contribution for the current year was determined as part of the August 31, 2000, actuarial valuation using the entry age actuarial funding method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 5.0 –9.0% per year, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a four year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of five years.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Three-Year Trend Information
(Dollar Amounts in Thousands)

Year Ended August 31	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 1,989	\$ 1,585	80 %	\$ (374)
2001	894	1,156	129	(777)
2000	48	958	1996	(516)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll *	UAAL as a Percentage of Covered Payroll ((b-a)/c)
August 31, 2002	\$ 128,319	\$ 130,875	\$ 2,556	98.0 %	\$ 26,607	9.6 %
August 31, 2001	128,070	122,661	(5,409)	104.4	28,216	(19.2)
August 31, 2000	121,404	115,671	(5,733)	105.0	25,808	(22.2)
August 31, 1999	113,903	104,692	(9,211)	108.8	23,611	(39.0)
August 31, 1998	109,213	94,848	(14,365)	115.1	21,860	(65.7)
August 31, 1997	101,476	91,023	(10,453)	111.5	20,909	(50.0)

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended August 31	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2002	\$ 1,878	\$ 1,585	84 %
2001	821	1,156	141
2000	92	958	1041
1999	962	904	94
1998	531	504	95
1997	546	433	79

At August 31, 2002, the City has recorded a net pension asset of \$374,000 in the government-wide statement of net assets.

ELECTRIC SYSTEM

The City owns and operates its own electric system which is included in the enterprise funds in the accompanying basic financial statements. The electric system is controlled and managed by an administrative board and is not supported by the City's general tax revenues. The electric system provides retirement benefits to its employees under its own separate plan, such benefits being funded solely from revenues derived from the operation of the electric system. A summary of the electric system plan is as follows:

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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The plan is a straight-money purchase plan, administered by a financial institution. LES's contribution is equal to 200% of the employees' contributions which range from 2-5% of gross wages. This plan and related contribution requirements were authorized by the administrative board of directors under LES' retirement plan, on October 12, 1972, (latest restatement June 15, 1989). Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. LES incurred contribution expense of approximately \$2,155,300 (9.5% of covered payroll) and its employees contributed approximately \$1,105,000 (4.9% of covered payroll).

DEPARTMENT DIRECTORS

Directors of City departments are eligible the first of the month following the date employed to be covered by the Director's Money Purchase Plan, established by City Ordinance, and administered by an insurance company. The Plan is a defined contribution plan requiring the City to contribute 6% of the first \$4,800 of earned income plus 12% of earned income over \$4,800 in one calendar year. Employees covered by the Plan may also make voluntary contributions. Participant accounts are immediately 100% vested. Total and covered payroll for the year ended December 31, 2001, was \$1,268,730. City contributions totaled \$147,323 or 11.6% of covered payroll. Voluntary employee contributions of \$25,425 were made for the year ended December 31, 2001.

ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first \$4,800 and 6% on the balance of earnings. Currently, the City contributes 200% of the employees' contribution. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2001, total payroll was approximately \$54,898,000 and covered payroll was approximately \$45,693,000. City contributions totaled \$4,345,732 or 9.5% of covered payroll and employee contributions totaled \$2,559,800 or 5.6% of covered payroll. Employees made \$38,200 in voluntary contributions for the year ended December 31, 2001.

(14) COMMITMENTS AND CONTINGENCIES

GENERAL

The City participates in a number of federally assisted grant programs. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

The City is a defendant in a number of lawsuits in its normal course of operations and management is of the opinion that ultimate settlement of such lawsuits will not have a materially adverse effect on the financial statements.

The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover soil, monitoring of groundwater conditions and landfill gas migration, and general site maintenance. While accrual of closure and postclosure care costs has been reflected in the financial statements in the current year, additional corrective action costs related to landfill gas migration and groundwater conditions may be identified once testing is completed and regulatory officials have made a final review of reported findings.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects fund has commitments under major construction contracts in progress of approximately \$13,709,000 as of August 31, 2002, which will be financed primarily through highway user fees, federal and state grants, and developer contributions.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$9,800,000 as of August 31, 2002, which will be financed primarily through operations.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year for the next five years. The maximum remaining commitment is approximately \$2,000,000.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$4,000,000 as of August 31, 2002, which will be financed primarily through operations and available funds.

Lincoln Water System has commitments to purchase approximately \$1,000,000 of automated meter reading system equipment for the next five years. The maximum remaining commitment is approximately \$5,000,000.

LINCOLN ELECTRIC SYSTEM (LES)

Participation Contract with NPPD for Cooper Nuclear Station

LES has a contract with Nebraska Public Power District (NPPD) which provides for the purchase of 12.5 percent of the output of NPPD's nominally rated 800-megawatt nuclear facility. The contract provides that LES will pay a proportionate share of the nuclear fuel costs (based on energy actually delivered) plus 12.5 percent of all other costs of the facility. Fixed cost payments under the contract are on the same percentage basis whether or not the plant is operating or operable. LES recognized expense for its share of the total fixed demand costs of approximately \$26,500,000 in 2001.

The contract continues through September 22, 2003, and may be extended if NPPD continues operating the facility after that date. The nuclear facility's operating license issued by the Nuclear Regulatory Commission has been extended to 2014. Upon expiration of the contract, if the facility is no longer operated, LES would be liable for 12.5 percent of the costs of decommissioning the nuclear facility. The most recent study indicates the total cost of decommissioning the facility would approximate between \$474,000,000 and \$492,000,000 in 1996 dollars. The available cash balances of various NPPD funds at that time will be used to offset the total cost of decommissioning the nuclear facility. At December 31, 2001, the available fund balances approximated \$291,300,000. LES recognized expense for these potential costs of approximately \$2,900,000 in 2001.

Participants are also billed for disposal costs of nuclear fuel burned based on energy produced. LES recognized related costs of approximately \$605,000 in 2001.

LES is responsible for 12.5 percent of capital additions and improvements at the nuclear facility. These projects are financed by NPPD and billed to LES over periods ranging from six to eight years. LES recognized as purchased power approximately \$1,300,000 in 2001 for its share of these costs.

Internal financial statements of the nuclear facility reflect \$73,900,000 in revenue bonds outstanding at December 31, 2001. Fixed cost payments of LES include the debt service payments necessary to retire 12.5 percent of the principal and interest on bonds issued by NPPD for the facility. LES's share of debt service payments was approximately \$4,400,000 in 2001.

Expected fixed cost payments to NPPD under this contract, including debt service payments, payments for decommissioning costs, fixed costs, and other costs as noted above, aggregate approximately

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

\$21,900,000 and \$18,700,000, respectively, in each of the two years subsequent to December 31, 2001.

Various lawsuits have been filed related to the construction of a low-level radioactive waste facility in Nebraska, which would be utilized by NPPD. LES is unable to predict the effect the lawsuits could have on the construction and operation of the waste facility, but the operation of the nuclear facility, as well as access to waste storage facilities, could be adversely affected.

Other Participation Contracts with NPPD

LES has participating interests in the output of two existing NPPD power plants, a thirty percent (approximately 68 Mega Watts (MW)) and eight percent (approximately 109 MW) entitlement to the output of the Sheldon Station Power Plant (nominally rated 225 MW coal plant) and Gerald Gentleman Station Power Plant (nominally rated 1,268 MW coal plant), respectively.

LES is responsible for its respective participating interests in the two facilities' capital additions and improvements. LES's share of debt service payments necessary to retire the respective participation interests of principal and interest on bonds issued by NPPD for the facilities was approximately \$6,200,000 in 2001. LES recognizes its share of capital acquisition costs and debt service payments as power costs in the period the costs are billed. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable. LES recognized expense for its share of the total fixed costs of approximately \$14,500,000 in 2001.

The participation contracts continue until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The expected fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments, and fixed costs and credits aggregate approximately \$17,100,000, \$16,900,000, \$16,100,000, \$16,800,000, and \$16,400,000, respectively, in each of the five years subsequent to December 31, 2001.

Laramie River Station (LRS)

LES is an 12.76 percent co-owner of the Missouri Basin Power Project which includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. Costs, net of accumulated depreciation, associated with LRS of approximately \$67,000,000 are reflected in utility plant at December 31, 2001.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES's capacity interest in LRS. The agreement provides for the County to pay LES approximately \$116,000 per month through July 1, 2002, for demand charges. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. At July 1, 2002, it was determined that the rate would increase to approximately \$118,000 per month. The agreement remains in effect until either the final maturity occurs on any LRS related debt, LRS is removed from commercial operation or the County gives LES notice to terminate the agreement. During 2001, LES billed the County approximately \$2,200,000 for demand and energy charges.

(15) SUBSEQUENT EVENTS

On July 31, 2002, subsequent to LES' December 31, 2001, reporting date, the LES administrative board approved a settlement with NPPD regarding claims and court actions related to their Power Sales Contract and to the Cooper Nuclear Station management and operating performance. The settlement included a new Power Sales Agreement with NPPD effective August 1, 2002, through September 30, 2003; an amendment to the agreement for Gerald Gentlemen Station relating to LES' entitlement to fully schedule an additional 7 megawatts from the Station; and authorization for LES to file documents for the dismissal of all outstanding litigation with NPPD related to Cooper Nuclear Station.

CITY OF LINCOLN, NEBRASKA
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August 31, 2002

A significant factor in the overall settlement is the provision to release LES from any future decommissioning obligation, and also to indemnify and hold LES harmless from any claims arising from or related to the power sales contract or the operation of Cooper Nuclear Station. Economic benefits include an estimated \$5 million in available decommissioning funds, \$3.5 million in savings in power costs, and approximately \$1 million per year in additional savings from low cost Gerald Gentlemen Station energy for so long as the station continues to operate.

In October 2002, the City issued \$148,190,000 of Lincoln Electric System Revenue and Refunding Bonds, series 2002, to provide funds which, together with certain other available funds, will be used for the payment and redemption of a portion of certain of the City's outstanding Electric System Revenue Refunding Bonds, 1993 Series A. The 2002 Bonds are also being issued to refund a portion of LES' tax exempt commercial paper, fund a deposit to the 2002 Debt Service Reserve Fund and pay for certain costs and expenses related to the issuance of the 2002 Bonds. The interest rates on the 2002 bonds range from 4.00-5.00 percent and the final maturity is on September 1, 2025. Debt service payments range from \$3,685,000 - \$13,510,000.

In November 2002, the City issued \$18,510,000 of Water Revenue Bonds, Series 2002, to provide funds necessary to pay costs incident to providing certain improvements to the municipally owned water system, establishing a reserve fund with respect to the 2002 bonds, and paying expenses incident to issuance of the bonds. The interest rates on the 2002 bonds range from 2.75-5.00 percent and the final maturity is on August 15, 2022. Debt service payments are scheduled annually at amounts that range from \$735,000 - \$1,465,000.

The City will issue \$32,180,000 of Water Revenue Refunding Bonds, Series 2003, to provide a portion of the funds required for the payment and redemption on August 15, 2003, of \$34,800,000 aggregate principal amount of the City's outstanding Water Revenue and Refunding Bonds, Series 1993 and paying expenses incident to issuance of the 2003 bonds. The interest rate on the 2003 bonds is 5.00 percent and the final maturity is on August 15, 2012. Debt service payments are scheduled annually at amounts that range from \$3,115,000 - \$4,335,000.

(16) RECONCILIATION OF BUDGET BASIS TO GAAP

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2002, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General Fund	Street Construction Fund
Net Change in Fund Balances:		
Balance on a GAAP basis	\$ 2,443,129	(3,058,635)
Basis differences (accruals) occur because the cash basis of accounting used for budgeting differs from the modified accrual basis of accounting prescribed for governmental funds.	(791,268)	(612,067)
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	-	22,543,481
Balance on a budget basis	<u>\$ 1,651,861</u>	<u>18,872,779</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

(17) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2002, consists of the following:

	Due From	Due To				
		General Fund	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	\$	-	868	7,005	376,829	384,702
Street Construction		-	-	5,532	5,323	10,855
Community Health Endowment		-	-	-	8	8
Nonmajor Governmental		17	507,111	-	45,537	552,665
Nonmajor Enterprise		970,419	-	-	12,885	983,304
Internal Service		40	-	-	19,440	19,480
Total	\$	<u>970,476</u>	<u>507,979</u>	<u>12,537</u>	<u>460,022</u>	<u>1,951,014</u>

“Due to” and “Due from” balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes \$742,608 from the Emergency Medical Services enterprise fund for an advance made for cash flow needs. Of this amount, \$268,000 is not expected to be repaid within one year. All remaining balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers To/From Other Funds at August 31, 2002, consists of the following:

	Transfer To	Transfer From				
		General Fund	Street Construction	Nonmajor Governmental	Lincoln Electric System	Total
General Fund	\$	-	-	311,325	1,140,251	1,451,576
Street Construction		-	-	10,114,321	-	10,114,321
Nonmajor Governmental		15,372,023	2,689,044	6,445,399	-	24,817,497
Nonmajor Enterprise		346,993	-	-	-	346,993
Internal Service		2,939	9,660	30,000	-	42,599
Total	\$	<u>15,721,955</u>	<u>2,698,704</u>	<u>16,901,045</u>	<u>1,140,251</u>	<u>36,772,986</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The variance of \$17,251 on the Statement of Activities transfers is caused by the different fiscal year end dates used by the City (August 31) and Lincoln Electric System (December 31). Lincoln Electric System records an estimate for payments in lieu of taxes as an accrued liability at the end of their fiscal year. The City however, receives the transfer before the August 31 fiscal year end, and records the exact amount as a transfer in.

(18) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. For the year ended August 31, 2002, the City has a self-insured retention for workers' compensation exposures up to \$400,000 per individual; building and contents exposures up to \$25,000 per occurrence; law enforcement liability exposures up to \$250,000 per occurrence; general liability exposures up to \$250,000 per occurrence; public officials exposures up to \$250,000 per occurrence; public transportation liability exposures up to \$250,000 per occurrence; auto liability exposures up to \$250,000, and employee long-term disability benefits, all of which are covered under the Insurance Revolving Fund which is included in the internal service funds. The self-insurance programs are administered through the Risk Management division.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Workers' compensation is covered by a policy which provides statutory limits above the City's retention of \$400,000 per individual. Law enforcement liability is covered by a policy which provides limits of \$2 million per occurrence and \$5 million in aggregate. Both general liability and public officials liability provides limits of \$1 million per occurrence and \$5 million in aggregate. Auto liability and Public transportation liability is covered by a policy which provides a limit of \$5 million. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to \$1 million per individual and \$5 million per occurrence. Settled claims have not exceeded coverage in any of the past four fiscal years.

The City annually retains the services of independent actuaries to analyze the self-insured workers' compensation, general liability, public transportation liability, law enforcement liability, auto liability, and long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

- Estimate the outstanding liabilities for the current fiscal year ended August 31,
- Forecast ultimate incurred losses and incurred but not reported (IBNR) losses for future years, and
- Estimate the required funding level for the City's self-insured liabilities.

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay budgeted annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of \$5,507,344 were recorded at August 31, 2002. This is the actuarially estimated amount of claims based on an estimate of ultimate incurred and IBNR losses as of that date and is calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. These liabilities have been discounted using a 4.0% discount rate and a claim payment pattern based on the historical data of the City. The City has purchased no annuity contracts in the current fiscal year to resolve City of Lincoln claims.

The following is a summary of the changes in the estimated claims liability for the year ended August 31, 2002:

Balance at September 1	\$ 4,762,334
Current year claims and changes in estimates	2,449,075
Claim payments	<u>(1,704,065)</u>
Balance at August 31	<u>\$ 5,507,344</u>

(19) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Lincoln currently owns and operates a solid waste disposal area and a construction and demolition disposal area. State and federal laws require the City to close the landfills once capacity is reached and to monitor and maintain the site for thirty subsequent years on the solid waste disposal area and five subsequent years on the construction and demolition disposal area. Although certain closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

At August 31, 2002, the City had incurred a liability of approximately \$4,518,000 for the solid waste disposal area which represents the amount of costs reported to date based on the approximately 30 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$10.4 million which will be recognized as the remaining capacity is used (estimated to be approximately 24 years).

As of August 31, 2002, the City had incurred a liability of approximately \$475,000 for the construction and demolition disposal area which represents the amount of costs reported to date based on the approximately 42 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$652,000 which will be recognized as the remaining capacity is used (estimated to be approximately 18 years).

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

The estimated costs of closure and postclosure care, as determined by an independent engineering consultant, are subject to changes such as the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure, and other variables.

Effective May 2002, the City of Lincoln, in review by the Nebraska Department of Environmental Quality (NDEQ), has demonstrated compliance with the financial assurance requirements as specified in Title 132 - *Integrated Solid Waste Management Regulations*, through the Local Government Financial Test. NDEQ also approved termination of the fund equity reserve mechanism previously used to represent such financial responsibility.

The City of Lincoln also owns a solid waste disposal area which discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency Solid Waste Disposal Facility Criteria issued October 9, 1991, the City must still adhere to certain closure and postclosure care requirements under prior legislation, including the construction of final cover soil, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2002, a liability for closure and postclosure care costs is recorded in the amount of approximately \$1,573,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. Additional corrective action costs related to possible landfill gas migration and groundwater conditions will be identified once testing is completed and regulatory officials have made a final review of subsequent findings. Consequently, costs associated with the potential corrective action have not been accrued as of August 31, 2002.

(20) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each \$100 of actual valuation of taxable property in the County. For the year ended August 31, 2002, the City made rental payments of approximately \$2 million to the Commission.

As of August 31, 2002, the Commission has bonds outstanding of \$39,975,000 attributable to several bond issues. Certain proceeds from the bonds totaling \$5,400,000 have been utilized by the Commission to acquire construct and/or renovate certain buildings occupied by the City and County. The City's proportionate share of such buildings and the corresponding debt are reflected as capital leases in the City's financial statements. Lease payments are not recorded as capital lease payments in the Debt Service funds but rather are recorded as current expenditures in the various individual funds.

Additional bond proceeds, totaling \$29,000,000, have been utilized by the Commission to construct a new County-City building and to renovate the prior County-City building to be used as a Hall of Justice. It is estimated that the City occupies approximately 65% of the new building and 38% of the renovated building (Hall of Justice). It is anticipated that property tax levies by the Commission will be sufficient to meet bond principal and interest payments. Should revenues from such property tax levies not be sufficient to meet debt service requirements in any given year, the City and County would contribute the necessary payments based on their proportionate occupancy in such buildings. Such contributions are expected to be minimal and will be expensed in the appropriate funds when incurred. The City's proportionate share of the buildings has been recorded in capital assets in accordance with the terms of the joint venture agreement regarding the ultimate transfer of assets to the City and County.

Bonds of \$8,330,000 have been issued to acquire and construct a parking facility adjacent to the County-City complex. The City's proportionate share of the parking facility will be recorded in capital assets upon completion, in relation to the ultimate transfer of the asset to the City and County.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

Complete separate financial statements for the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

(21) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority (JAVA) is a joint administrative entity created April 15, 2000, in accordance with Article XV, Section 18 of the Constitution of the State of Nebraska and Nebraska Revenue Statutes Section 13.801 through 13.827 (1997) authorizing the creation of a joint entity by public agencies. Per an interlocal cooperative agreement by and between the Board of Regents of the University of Nebraska, a public body corporate, the City of Lincoln, Nebraska, a municipal corporation, and the Lower Platte South Natural Resources District, a political subdivision of the State of Nebraska. JAVA constitutes a separate administrative entity, exercising the public power granted by the interlocal cooperation agreement on behalf of the three aforementioned "Partners" to coordinate planning and implementation of a public project described in the Antelope Valley Study and the U.S. Army corps of Engineers Antelope Creek Feasibility Study (the Project). The Project generally includes community revitalization, transportation, and drainage/flood control improvements.

After completion of a specific component of the Project, JAVA will transfer all real estate and improvements thereon to the appropriate individual Partner, subject to the necessary and agreed upon easements which will be conveyed to such Partner or other appropriate public or private entity, or reserved by such a Partner, for the operation, maintenance, repair and inspection of each specific component.

During the implementation period of the agreement, JAVA shall have the power and authority to acquire and condemn property rights, borrow, mortgage, pledge, or secure loans and bond its appropriated revenues and assets; provided however, that JAVA shall have no power and authority to bond the credit or revenues of the three Partners or each Partner, or levy taxes.

Complete separate financial statements for JAVA may be obtained at the City of Lincoln Public Works Business Office, 555 South 10th Street, Lincoln, Nebraska 68508.

(22) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the county board of commissioners, two by the Mayor of Lincoln who must be confirmed by the City Council, and one by LES. No participant has any obligation, entitlement, or residual interest.

The DEC Board of Directors, under a twenty-year management agreement, have appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately \$120,000 in 2001. The total amount of payments to LES for energy was approximately \$73,000 in 2001.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with the University of Nebraska, created the Nebraska Utility Corporation (NUCorp). NUCorp was created to purchase, lease, construct and finance facilities and to acquire services in order to furnish energy requirements, utility and infrastructure services and all related energy, utility and infrastructure services to counties, cities, villages, school districts, sanitary and improvement districts or other municipal corporations or political subdivisions of the State of Nebraska or political subdivisions of another state. The Board of Directors of NUCorp is comprised of five members: three members appointed by the University of Nebraska and two members appointed by LES. No participant has any obligation, entitlement, or residual interest.

APPENDIX C

CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Lincoln, Nebraska (the "City") in connection with the issuance by the City of \$19,305,000 aggregate principal amount of its General Obligation Various Purpose Bonds, Series 2003 (the "Bonds"). The Bonds are being issued pursuant to Ordinance No. 18178 duly passed and adopted by the City Council on May 19, 2003 and approved by the Mayor on May 19, 2003 (the "Ordinance"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth elsewhere in this Disclosure Certificate, the following terms shall have the meanings as set forth below:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in **Exhibit A** hereto.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Nebraska.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, not later than May 1 of each year, commencing May 1, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and

may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as **Exhibit B** hereto.

(c) The City shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the City Clerk certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Such financial and operating data as the City customarily provides in its Comprehensive Annual Financial Report.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of the owner of Bonds;

4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. release, substitution or sale of property securing repayment of the Bonds;
10. unscheduled draws on credit enhancements reflecting financial difficulties; or
11. substitution of credit or liquidity providers, or their failure to perform.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories and the Municipal Securities Rulemaking Board. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Ordinance.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Ordinance for amendments to the Ordinance with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the City comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: July 8, 2003.

CITY OF LINCOLN, NEBRASKA

By _____
Finance Director

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of June 24, 2003 are as follows:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
Email: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
Email: nrmsir@dpcdata.com

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
<http://www.interactivedata.com>
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: **City of Lincoln, Nebraska**

Name of Issue: **General Obligation Various Purpose Bonds, Series 2003**

Date of Issuance: **July 8, 2003**

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds. The City anticipates that the Annual Report will be filed by _____, 20____.

Dated: _____

CITY OF LINCOLN, NEBRASKA

By: _____
Finance Director

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

BOOK-ENTRY-ONLY SYSTEM

Generally

DTC will act as securities depository for the Bonds. Initially, ownership of one fully registered Bond for each maturity of the Bonds, as set forth on the front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Bonds will be available to purchasers only through a book-entry system (the “Book-Entry System”) maintained by DTC. The following discussion will not apply to Bonds if issued in certificated form. See “Discontinuance of Book-Entry-Only System” under this caption.

DTC and Its Participants

DTC, the world’s largest depository, is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants;” Direct Participants and Indirect Participants are herein referred to together as “DTC Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit with respect to Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) will be recorded through the records of the Direct Participant and Indirect Participant through which the purchase is made. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants, acting on behalf of the Beneficial Owners. *Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event use of the book-entry system for the Bonds is discontinued as specifically provided in the Ordinance.*

Each person for whom a Participant has an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant and may desire to make arrangements with such Participant to have all notices of redemption and other communications with respect

to the Bonds that may affect such person forwarded in writing by such Participant and to be notified of all interest payments. THE CITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (ii) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE ORDINANCE TO BE GIVEN TO BONDHOLDERS; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Payments of Principal, Premium, if any, and Interest

So long as any Bond is registered in the name of DTC's nominee, all payments of principal, and redemption premium, if any, and interest on, such Bond will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Registrar, on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Registrar or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of, redemption premium, if any, and interest on the Bonds to DTC is the responsibility of the City and the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Participants.

Notices

Any references in this Official Statement to notices or other communications to be provided to bondholders by the City or the Registrar will be given only to DTC. Conveyance of notices and other communications by DTC or Direct Participants. By Direct Participants to Indirect Participants, and by DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Neither the City nor the Registrar will have any responsibility or obligation to assure that any such notice is forwarded by DTC to the DTC Participants or by any DTC Participant to the Beneficial Owner.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigned Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Transfers and Exchanges of Beneficial Ownership Interests

Transfers of beneficial ownership interests in the Bonds will be accomplished by book entries made by DTC and the Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of the Bonds, the Registrar, DTC and the Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other governmental charge required to be paid with respect thereto and may charge a sum sufficient to pay the cost of preparing and authenticating each new Bond.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's record reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of Bonds

Registered ownership of the Bonds, or any portions thereof, may not be transferred on the books of the Registrar except:

To any successor of DTC or its nominees;

To any substitute depository designated by the City upon the resignation or termination of DTC or its successor (or any substitute depository or its successor) from its functions as depository;

To any person, upon discontinuance of the Book-Entry System as described below.

The City and the Registrar shall be entitled to treat the owner of the Bonds (initially, Cede & Co.) as the absolute owner thereof for all purposes of the Ordinance and any applicable laws, notwithstanding any notice to the contrary received by any of them. The City and the Registrar will have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Bonds. Neither the City, the Registrar nor the Registrar will have any responsibility or obligation, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or successor), except to the owners of any Bond as shown on the registration books of the Registrar. So long as all Bonds are registered in the name of Cede & Co., the City, the Registrar and the Registrar are to cooperate with DTC or its nominee in effecting payment of the principal, and redemption premium, if any, and interest on, the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

Neither the City, the Registrar nor the Registrar shall be required to transfer or exchange Bonds from the Record Date through and including the next succeeding interest or principal payment date for the Bonds or from the Record Date next preceding any selection of Bonds to be redeemed or thereafter until after the first mailing of any notice of redemption; or to transfer or exchange any Bonds called for redemption.

Discontinuance of Book-Entry-Only System

DTC's services with respect to the Bonds may be discontinued or terminated at any time under the following circumstances:

(a) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law.

(b) The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the City determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Registrar in the name of Cede & Co., or any other nominee of DTC, is not in the best interests of the Beneficial Owners of the Bonds.

In the event that DTC's services are so discontinued or terminated because it is unwilling or is determined to be unable to discharge its responsibilities, and no substitute securities depository willing to undertake the functions of DTC under the Ordinance can be found which, in the opinion of the City, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, the City is obligated to deliver Bond certificates, at the expense of the Beneficial Owners, as described in the Ordinance.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement, it should be understood that while the Bonds are in the Book-Entry System, references in other sections of this Official Statement to owners should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the City or the Registrar will be given only to DTC.

The foregoing information in this section regarding DTC and the Book-Entry System is based solely on information provided by DTC. No representation is made by the City or the Underwriter as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.